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

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

**(Stock Code: 1378)**

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

### RESULTS HIGHLIGHTS

- Revenue increased by approximately 5.0% to approximately RMB24,804,742,000 as compared with the previous year
- Gross profit decreased by approximately 2.1% to approximately RMB8,003,448,000 as compared with the previous year
- Net profit attributable to owners of the Company decreased by approximately 7.2% to approximately RMB5,452,592,000 as compared with the previous year
- Basic earnings per share decreased by approximately 9.7% as compared with the previous year and were approximately RMB0.93
- Proposed final dividend of HK$26.0 cents per share

The board of directors (the "Board") of China Hongqiao Group Limited (the "Company" or "China Hongqiao") is pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | *Notes* | **2012** | 2011 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **24,804,742** | 23,626,031 |
| Cost of sales | | **(16,801,294)** | (15,449,645) |
| Gross profit | | **8,003,448** | 8,176,386 |
| Other income and gain and loss | *4* | **422,439** | 311,960 |
| Distribution and selling expenses | | **(58,667)** | (44,054) |
| Administrative expenses | | **(306,068)** | (167,033) |
| Finance costs | *5* | **(642,731)** | (300,819) |
| Other expenses | | **(20,121)** | (22,569) |
| Changes in fair value of compound derivative | | **2,253** | – |
| Profit before taxation | *6* | **7,400,553** | 7,953,871 |
| Income tax expense | *7* | **(1,947,961)** | (2,078,461) |
| Profit and total comprehensive income for the year | | **5,452,592** | 5,875,410 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **5,452,592** | 5,875,410 |
| Non-controlling interests | | **–** | – |
| | | **5,452,592** | 5,875,410 |
| Earnings per share | *8* | | |
| Basic (RMB) | | **0.93** | 1.03 |
| Diluted (RMB) | | **0.92** | N/A |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | *Notes* | **2012** | 2011 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Non-current assets | | | |
| Property, plant and equipment | | **26,711,299** | 16,424,458 |
| Prepaid lease payments-non-current portion | | **1,044,404** | 937,128 |
| Deferred tax assets | | **57,495** | 43,616 |
| Deposits paid for acquisition of property, plant and equipment | | **1,705,469** | 1,400,011 |
| | | **29,518,667** | 18,805,213 |
| Current assets | | | |
| Prepaid lease payments-current portion | | **22,394** | 19,726 |
| Inventories | | **3,110,727** | 1,908,646 |
| Trade receivables | *10* | **43,672** | 1,438 |
| Bills receivable | | **1,319,684** | 1,312,960 |
| Prepayments and other receivables | | **314,542** | 121,802 |
| Restricted bank deposits | *11* | **872,088** | 14,468 |
| Bank balances and cash | *11* | **9,174,943** | 7,484,795 |
| | | **14,858,050** | 10,863,835 |
| Current liabilities | | | |
| Trade payables | *12* | **1,097,744** | 1,216,259 |
| Bills payable | | **200,000** | – |
| Other payables | *13* | **3,871,241** | 2,644,583 |
| Income tax payable | | **244,895** | 137,879 |
| Bank borrowings-due within one year | | **6,659,235** | 3,210,610 |
| Held-for-trading financial liabilities | | **1,084** | – |
| | | **12,074,199** | 7,209,331 |

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Net Current Assets | | **2,783,851** | 3,654,504 |
| Total Assets less Current Liabilities | | **32,302,518** | 22,459,717 |
| Capital and Reserves | | | |
| Share capital | *15* | **386,206** | 386,206 |
| Share premium and reserves | | **21,927,049** | 18,010,828 |
| Equity attributable to owners of the Company | | **22,313,255** | 18,397,034 |
| Non-controlling interests | | **24,642** | – |
| Total Equity | | **22,337,897** | 18,397,034 |
| Non-current Liabilities | | | |
| Bank borrowings-due after one year | | **7,443,657** | 3,981,593 |
| Medium-term debentures | | **1,486,640** | – |
| Deferred tax liabilities | | **73,763** | 81,090 |
| Convertible bonds-Liability component | | **729,411** | – |
| Convertible bonds-Derivative component | | **231,150** | – |
| | | **9,964,621** | 4,062,683 |
| | | **32,302,518** | 22,459,717 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
*FOR THE YEAR ENDED 31 DECEMBER 2012*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Capital reserve** | **Statutory surplus reserve** | **Retained earnings** | **Subtotal** | **Non-controlling interests** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* *(Note 1)* | *RMB'000* *(Note 2)* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2011 | 69 | – | 793,349 | 1,028,660 | 5,480,463 | 7,302,541 | – | 7,302,541 |
| Profit and total comprehensive income for the year | – | – | – | – | 5,875,410 | 5,875,410 | – | 5,875,410 |
| Capitalisation of share premium | 328,059 | (328,059) | – | – | – | – | – | – |
| Issue of shares | 58,078 | 5,306,954 | – | – | – | 5,365,032 | – | 5,365,032 |
| Transaction costs attributable to issue of shares | – | (145,949) | – | – | – | (145,949) | – | (145,949) |
| Transfer to reserves | – | – | – | 820,824 | (820,824) | – | – | – |
| At 31 December 2011 | 386,206 | 4,832,946 | 793,349 | 1,849,484 | 10,535,049 | 18,397,034 | – | 18,397,034 |
| Profit and total comprehensive income for the year | – | – | – | – | 5,452,592 | 5,452,592 | – | 5,452,592 |
| Dividend recognised as distribution *(Note 9)* | – | – | – | – | (1,536,371) | (1,536,371) | – | (1,536,371) |
| Acquisition of a subsidiary | – | – | – | – | – | – | 24,642 | 24,642 |
| Transfer to reserves | – | – | – | 561,307 | (561,307) | – | – | – |
| At 31 December 2012 | 386,206 | 4,832,946 | 793,349 | 2,410,791 | 13,889,963 | 22,313,255 | 24,642 | 22,337,897 |

*Notes:*

(1) Capital reserve represents (i) the effect of a group reorganization completed in March 2010 and (ii) deemed capital contribution from its equity holders.

(2) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China ("PRC"), those subsidiaries are required to transfer 5% to 10% of the profit after taxation reported under the relevant accounting policies and financial regulations in the PRC (the "PRC GAAP") to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

**CONSOLIDATED STATEMENT OF CASH FLOWS**
*FOR THE YEAR ENDED 31 DECEMBER 2012*

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| OPERATING ACTIVITIES | | |
| Profit before taxation | **7,400,553** | 7,953,871 |
| Adjustments for: | | |
| Interest income | **(28,555)** | (11,156) |
| Finance costs | **642,731** | 300,819 |
| Depreciation of property, plant and equipment | **1,340,046** | 840,736 |
| Loss on disposal of property, plant and equipment | **240** | – |
| Loss from changes in fair value of financial liabilities at fair value through profit or loss | **1,084** | – |
| Gain on fair value changes of compound derivative | **(2,253)** | – |
| Release of prepaid lease payments | **21,921** | 7,611 |
| Operating cash flows before movements in working capital | **9,375,767** | 9,091,881 |
| Increase in inventories | **(1,202,081)** | (786,546) |
| Increase in receivables, deposits and prepayments | **(240,824)** | (393,173) |
| Increase (decrease) in payables, deposits received and accrued charges | **150,060** | (261,232) |
| Cash generated from operations | **8,082,922** | 7,650,930 |
| Income tax paid | **(1,862,151)** | (2,020,851) |
| Net cash generated from operating activities | **6,220,771** | 5,630,079 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment and deposit for acquisition of property, plant and equipment | **(10,708,031)** | (8,169,372) |
| Addition to prepaid lease payments | **(131,865)** | (808,321) |
| Acquisition of a subsidiary | **24,784** | – |
| Interest received | **28,555** | 11,156 |
| Placement of restricted bank deposits | **(1,356,923)** | (15,527) |
| Withdraw of restricted bank deposits | **499,303** | 83,709 |
| Net cash used in investing activities | **(11,644,177)** | (8,898,355) |

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | – | 5,365,032 |
| Shares issue expenses paid | – | (145,949) |
| Dividends paid | **(1,536,371)** | – |
| Proceeds from issue of convertible bonds | **945,525** | – |
| Payment of transaction costs on issue of convertible bonds | **(27,765)** | – |
| New bank borrowings raised | **15,298,385** | 4,614,895 |
| Repayment of bank borrowings | **(8,387,696)** | (1,456,542) |
| New other borrowings raised | **1,341,882** | – |
| Repayment to other borrowings | **(1,341,882)** | – |
| Proceeds from issue of medium-term debentures raised | **1,500,000** | – |
| Payment of transaction costs on issue of medium-term debentures | **(13,658)** | – |
| Interest paid | **(664,866)** | (293,934) |
| Net cash generated from financing activities | **7,113,554** | 8,083,502 |
| Net increase in cash and cash equivalents | **1,690,148** | 4,815,226 |
| Cash and cash equivalents at beginning of the year | **7,484,795** | 2,669,569 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | **9,174,943** | 7,484,795 |

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 24 March 2011. Its parent and ultimate holding company is China Hongqiao Holdings Limited ("Hongqiao Holdings"), a company incorporated in the British Virgin Island.

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

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

In the current year, the Group has applied, for the first time, the following amendments to standards issued by the International Accounting Standards Board ("IASB") which have become effective.

| | |
|---|---|
| Amendments to IAS 12 | Deferred Tax: Recovery of Underlying Asset |
| Amendments to IFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets |

Except as described below, the adoption of the amendments to standards in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

*Amendments to IFRS 7 Financial Instruments Disclosures – Transfers of Financial Assets*

The Group has applied for the first time the amendments to IFRS 7 *Financial Instruments Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various suppliers to transfer to the suppliers its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through endorsing those bills receivable to suppliers on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the corresponding trade payables were included in the consolidated statement of financial position accordingly. The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to IFRS 7.

The Group has not early applied the following new and revised standards, amendments and interpretation ("new and revised IFRSs") that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009-2011 Cycle[1] |
| Amendments to IFRS 1 | Government Loans[1] |
| Amendments to IFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition and Disclosures[3] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (as revised in 2011) | Employee Benefits[1] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012

*Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012*

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

*IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss ("FVTPL") was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the Company anticipate the standard will be adopted in the Group's consolidated financial statements for the year beginning on 1 January 2015. The application of IFRS 9 will not affect the classification and measurement of the Group's financial assets or liabilities based on an analysis of the Group's financial assets and liabilities as at 31 December 2012.

*IFRS 10 "Consolidated Financial Statements"*

IFRS 10 replaces part of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 10 is effective for annual periods beginning on 1 January 2013, with earlier application permitted. The Directors of the Company anticipate that the application of IFRS 10 have no material impact on the results and the financial position of the Group.

*IFRS 12 "Disclosure of Interests in Other Entities"*

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards. Significant effort may be required to collect the necessary information.

IFRS 12 is effective for annual periods beginning on 1 January 2013. The directors of the Company anticipate that the application of IFRS 12 is may result in more extensive disclosures in the consolidated financial statements.

*IFRS 13 "Fair value measurement"*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 "Financial instruments: Disclosures" will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Directors anticipate that IFRS 13 may result in more extensive disclosures in the consolidated financial statements.

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

## 3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from | | |
| Sales of goods | | |
| Aluminum products | | |
| – molten aluminum alloy | **17,161,788** | 16,972,433 |
| – aluminum alloy ingots | **6,768,728** | 5,845,640 |
| – aluminum alloy casting-rolling plate | **228,534** | 7,361 |
| – aluminum busbars | **107,062** | 102,955 |
| Steam supply income | **538,630** | 697,642 |
| | **24,804,742** | 23,626,031 |

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A | **8,324,216** | 7,903,513 |
| Customer B | **3,032,614** | 3,763,358 |

## 4. OTHER INCOME AND GAIN AND LOSS

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **28,555** | 11,156 |
| Net gain on sales of raw materials *(Note)* | **85,756** | 46,538 |
| Revenue from sales of slag of carbon anode blocks | **278,010** | 257,861 |
| Foreign exchange losses, net | **(419)** | (25,782) |
| Loss on disposal of property, plant and equipment | **(240)** | – |
| Loss from changes in fair value of financial liabilities at FVTPL | **(1,084)** | – |
| Others | **31,861** | 22,187 |
| | **422,439** | 311,960 |

*Note:*

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from sales of raw materials | **126,613** | 57,559 |
| Expenses related to sales of raw materials | **(40,857)** | (11,021) |
| | **85,756** | 46,538 |

## 5. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank borrowings | | |
| – wholly repayable within five years | **566,400** | 330,281 |
| Interest expenses on convertible bonds | **69,180** | – |
| Interest expenses on other borrowings *(Note i)* | **19,264** | |
| Interest expenses on medium-term debentures | **6,042** | – |
| Transaction cost relating to compound derivative | | |
| – component of convertible bonds | **6,854** | – |
| Arrangement fee of syndicated loan *(Note ii)* | **63,705** | – |
| Less: Amount capitalised under construction in progress | **(88,714)** | (29,462) |
| | **642,731** | 300,819 |

*Notes:*

i During the year, the Company had other borrowings amounting to approximately RMB1,341,822,000, which represented the loans of US$ 152,000,000 (equivalent to RMB961,385,000) and HK$ 466,680,000 (equivalent to RMB380,437,000). The loans were lent by three independent third parties for a term of two years and are unsecured and interest bearing.

ii During the year, the Company early repaid the syndicated loan and the corresponding arrangement fee of approximately RMB63,705,000 was recognised as expense.

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 6.28% (2011: 5.88%) per annum to expenditure on qualifying assets.

## 6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Staff cost: | | |
| Directors' and chief executive's emoluments | **5,379** | 5,340 |
| Other staff costs: | | |
| – Wages and salaries | **1,010,620** | 536,089 |
| – Retirement benefit schemes contributions | **27,785** | 16,082 |
| Total staff costs | **1,043,784** | 557,511 |
| Auditors' remuneration | **3,900** | 3,500 |
| Depreciation of property, plant and equipment | **1,340,046** | 840,736 |
| Cost of inventories recognised as an expense | **16,744,399** | 15,362,093 |
| Release of prepaid lease payments | **21,921** | 7,611 |
| Listing expenses | **–** | 15,842 |

## 7. INCOME TAX EXPENSES

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The charge comprises: | | |
| Current tax | | |
| PRC enterprise income tax | **1,957,044** | 2,000,756 |
| Hong Kong Profits Tax | **12,123** | – |
| Deferred tax charge (credit) | **(21,206)** | 77,705 |
| | **1,947,961** | 2,078,461 |

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

In addition, the EIT Law provides that qualified dividend income between two "PRC-resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. The Group is currently subject to withholding tax at 5%. Included in PRC enterprise income tax is an amount of RMB81,090,000 withholding tax on such dividend income.

The PRC enterprise income tax includes PRC enterprise income tax and withholding tax on dividend income between group entities on the taxable income of subsidiaries established in the PRC.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

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

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

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit before taxation | **7,400,553** | 7,953,871 |
| Tax at the PRC enterprise income tax rate of 25% (2011: 25%) | **1,850,139** | 1,988,468 |
| Tax effect of expenses not deductible | **230** | 237 |
| Tax effect of tax losses not recognised | **30,074** | 8,666 |
| Effect of different tax rates of subsidiaries | **(6,245)** | – |
| Tax effect of withholding tax on undistributed profits of PRC subsidiaries | **73,763** | 81,090 |
| Tax charge for the year | **1,947,961** | 2,078,461 |

## 8. EARNINGS PER SHARE

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

| **Earnings** | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Earnings for the purpose of basic earnings per share profit for the year attributable to owners of the company | **5,452,592** | 5,875,410 |
| Effect of effective interest on the liability component of convertible bonds | **69,180** | N/A |
| Effect of gain recognised on the compound derivative component of convertible bonds | **(2,253)** | N/A |
| Earnings for the purpose of diluted earnings per share | **5,519,519** | N/A |

| **Weighted average number of shares** | 2012 | 2011 |
|---|---|---|
| | *'000 shares* | *'000 shares* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **5,885,000** | 5,684,000 |
| Effect of conversion of convertible bonds | **122,829** | N/A |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **6,007,829** | N/A |

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

During the year ended 31 December 2011, no diluted earnings per share is presented as there is no potential ordinary shares outstanding.

## 9. DIVIDENDS

Dividends recognised as distribution during the year:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 2011 final dividends – HK$32 cents per share | **1,536,371** | – |

During the current year, a final dividend of HK$1,530,100,000 (equivalent to RMB1,240,682,000) at HK$26 cents per share in respect of the year ended 31 December 2012, based on 5,885,000,000 shares as at 31 December 2012, has been proposed by the directors of the Company and is subject to the approval by the shareholders in the forthcoming annual general meeting.

The final dividend of HK$1,883,200,000 (equivalent to approximately RMB1,536,371,000) at HK$32 cents per share in respect of the year end 31 December 2011, was approved by shareholders in the annual general meeting in May 2012 and paid to the owners of the Company.

## 10. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 90 days | **43,672** | 1,438 |

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

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

Impairment for trade receivables over 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment and expected recoverable amounts. No impairment has been recognised for the year ended 31 December 2012 (2011: Nil).

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

## 11. RESTRICTED BANK DEPOSITS AND BANK BALANCES

Restricted bank deposits represent the Group's bank deposits pledged to banks for issuance of letter of credit and bills payable.

The restricted bank deposits carry market interest rate of 0.35% to 3.5% per annum as at 31 December 2012 (2011: 0.36% to 0.5%).

Bank balances and cash at 31 December 2012 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

## 12. TRADE PAYABLES

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 180 days | **1,091,334** | 1,202,549 |
| 181 – 365 days | **5,389** | 12,597 |
| 1 – 2 years | **822** | 798 |
| Over 2 years | **199** | 315 |
| | **1,097,744** | 1,216,259 |

## 13. OTHER PAYABLES

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Payables on property, plant and equipment | **2,400,173** | 1,511,252 |
| Retention payables | **897,081** | 650,346 |
| Accrued liability related to litigations *(Note)* | **–** | 102,260 |
| Other payables and accruals | **46,200** | 26,157 |
| Advance from customers | **486,842** | 225,881 |
| Accrued payroll and welfare | **15,638** | 14,123 |
| Other tax payables | **25,307** | 114,564 |
| | **3,871,241** | 2,644,583 |

*Note:* Shandong Weiqiao Aluminum & Power Co., Ltd ("Aluminum & Power") and Wuhan Boiler Company Limited ("Wuhan Boiler") a boiler supplier of the Group, respectively initiated legal proceedings at Shandong Higher People's Court in the prior years. As of 31 December 2011, the Group has accrued in full the remaining sum in relation to the litigations brought by Wuhan Boiler. On 27 March 2012, the Group and Wuhan Boiler signed a settlement agreement relating to legal proceedings. As of 31 December 2012, the Group had fully paid the settlement according to the settlement agreement.

## 14. RELATED PARTY TRANSACTIONS

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

| Name | Relationship |
|---|---|
| 濱州魏橋鋁業科技有限公司 ("Aluminum Technology") *(note i)* | Controlled by山東魏橋創業集團有限公司 ("Chuangye Group") *(note i and ii)* |

*Notes:*

(i) The English names of these companies are for reference only and have not been registered.

(ii) Mr. Zhang Shiping, the director and the controlling shareholder of the ultimate holding company of the Company, has significant influence over in Chuangye Group during the two years ended 31 December 2012.

**(b)** The Group has entered into the following significant transactions with its related party during the two years ended 31 December 2012:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Purchases of carbon anode blocks | | |
| – Aluminum Technology | **262,367** | 333,744 |
| Sales of slag of carbon anode blocks | | |
| – Aluminum Technology | **24,875** | 23,999 |

### (c) Compensation of key management personnel

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short term employee benefit | **5,775** | 5,684 |
| Retirement benefits scheme contributions | **33** | 28 |
| | **5,808** | 5,712 |

## 15. SHARE CAPITAL

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

| | *Notes* | **Number of shares** | **Shares capital** *US$* |
|---|---|---|---|
| Authorised | | | |
| Ordinary shares of US$0.01 each | | | |
| At 1 Jannuary 2011 | | 5,000,000 | 50,000 |
| Increase on 16 January 2011 | *(a)* | 9,995,000,000 | 99,950,000 |
| Ordinary shares of US$0.01 each | | | |
| At 31 December 2011 and 2012 | | 10,000,000,000 | 100,000,000 |
| Issued and fully paid | | | |
| Ordinary shares of US$0.01 each | | | |
| At 1 January 2011 | | 1,000,000 | 10,000 |
| Capitalisation of share premium on 24 March 2011 | *(a)* | 4,999,000,000 | 49,990,000 |
| Issue of shares upon listing of the Company's shares on the Stock Exchange on 24 March 2011 | *(b)* | 885,000,000 | 8,850,000 |
| Ordinary shares of US$0.01 each | | | |
| At 31 December 2011 and 2012 | | 5,885,000,000 | 58,850,000 |

| | **2012** *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| Shown on the consolidated statement of financial position | **386,206** | 386,206 |

*Notes:*

a) Pursuant to the written resolutions of all shareholders of the Company passed on 16 January 2011, the authorised share capital of the Company was increased from US$50,000 to US$100,000,000 by the creation of an additional 9,995,000,000 shares. A sum of US$49,990,000 standing to the credit of the share premium account of the Company was capitalised and applied in paying up in full at par 4,999,000,000 shares allotment and issued to the shareholders of the Company whose name appeared on the register of members of the Company at the close of business on 24 March 2011 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid on 24 March 2011.

b) On 24 March 2011, the Company issued 885,000,000 ordinary shares of US$0.01 each at the price of HK$7.20 per share by way of placing and public offering. On the same date, the Company's shares were listed on the Stock Exchange.

The shares issued ranking pari passu with other shares in issue in all respects.

## 16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 8 March 2013.

## CHAIRMAN'S STATEMENT

It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of China Hongqiao Group Limited ("China Hongqiao" or the "Company") the annual results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2012 (the "Year" or the "Period under Review").

## STAYING COMPETITIVE AMID CHALLENGES

Challenges and changes in the market characterized China's aluminum industry in 2012. On the one hand, the European debt crisis lingered while China's economic growth softened; on the other hand, downstream demand for aluminum products was struck hard repeatedly by the successive monetary tightening policies and real estate control measures of China's central government, driving the prices of aluminium industrial products lower. Meanwhile, the Republic of Indonesia ("Indonesia") announced in May 2012 that it would impose export customs duty on 14 mineral products including bauxite, which also brought the potential risk of rising costs to the aluminum industry.

Despite these challenges, China Hongqiao leveraged on its solid core competitiveness, vastly advantageous business model and proactive business development strategies to facilitate the accomplishment of an industrial positioning centered on the integration of aluminum and electricity as well as integration of upstream and downstream businesses, ensured sustainable and stable production and operations, and further strengthened our position as the leader in China's aluminum market. Benefiting from precise interpretation of policy directions and accurate timing in capturing future industry trends, and leveraging on highly prospective development strategies and outstanding executive ability, in December 2012, the Group announced the plan to make investment together with three highly competitive mining and shipping companies, in which a US$1 billion investment was committed to build an alumina production company in Indonesia for the construction and operation of an alumina production plant with designed annual production capacity of 2,000,000 tons. While such investment will help to secure stable supply of raw materials for the Group, it can also expand product sales to Indonesia and overseas market to lay a solid foundation for the long-term development of the Group.

## RESULTS AND PERFORMANCE

Although uncertainties plagued the external environment throughout the past year, domestic demand in China remained strong. Expanding domestic demand will continue to be a key support for the continuous economic growth of China in the future. In addition, the various development planning and policies promulgated by the National Development and Reform Commission (the "NDRC") in 2012 in line with the 12th Five-Year Plan injected new vitality and momentum to China's aluminum product market. The Group capitalized on this important opportunity to further expand production capacity, realize stability in performance and further consolidate the Group's leading position in China's aluminum industry. As of 31 December 2012, the Group's designed annual production capacity of aluminum products was 2,016,000 tons (2011: 1,776,000 tons), ranking us the fourth largest aluminum product manufacturer in China and representing a capacity growth of about 13.5% compared with that of 2011. Besides, in order to secure stable power supply and continue to enhance its cost advantages, the Group continued to expand the scale of its captive power plants and achieved the ownership of power generators with installed capacity of 2,730MW by the end of 2012, while on the other hand the Group has completed the construction and commenced the operation of the project for the comprehensive utilization of coal fly ash in producing alumina with designed annual production capacity of 3,000,000 tons in the production base in Zouping.

During the Period under Review, the Group's revenue amounted to approximately RMB24,804,742,000, representing a year-on-year increase of approximately 5.0%. The gross profit reached approximately RMB8,003,448,000, representing a year-on-year decrease of approximately 2.1%. Net profit attributable to shareholders of the Company amounted to approximately RMB5,452,592,000, representing a year-on-year decrease of approximately 7.2%. Basic earnings per share were approximately RMB0.93 (2011: approximately RMB1.03). The Board recommended the payment of a final dividend of HK$26.0 cents per share for the year of 2012 (2011: HK$32.0 cents per share).

## IMMENSE GROWTH POTENTIAL IN THE ALUMINUM MARKET

Over the past year, great changes in the external environment of the industry posed new challenges to aluminum manufacturers in China. In 2012, the lower aluminum price in London Metal Exchange (the "LME") compared with that of Shanghai Futures Exchange (the "SHFE") led to an increase in the amount of aluminum imported into China. Besides, the successive announcements of electricity subsidy measures for electrolytic aluminum plants by local governments again sparked concerns about overcapacity due to the production resumption of closed-down plants. However, all these factors have not wavered the Group's belief that there is huge prospect in the potential of China's aluminum market.

It is without doubt that, in future, aluminum will play an important role in China's key industrial sectors, such as construction, transportation vehicles, as well as electronic consumption products. In 2012, the Ministry of Industry and Information Technology of China released the "12th Five-Year Plan for the Nonferrous Metal Industry", "12th Five-Year Plan for the Aluminum Industry" and "12th Five-Year Plan for the New Materials Industry" consecutively, in which it was clearly stated that proprietary research and development capability of enterprises shall be enhanced, and development in refined aluminum fabrication processing was strongly encouraged. In September 2012, the NDRC approved 25 urban railway transportation projects in 19 cities and the road projects with total length exceeding 2,000 km, aggregating over RMB1 trillion of total investment. This is expected to provide phenomenal room of growth for the aluminum industry. China's central government's continued efforts in expanding infrastructure construction and subsidized housing projects, investments in construction of new villages and small towns, as well as rapid development in the areas of electrical and electronic products, food and pharmaceutical packaging, etc. are all driving the persistent growth in aluminum market demand. Future development in these various areas will continue to buoy the stable growth of China's aluminum market, which will in turn benefit the Group. The Group is well-positioned to capture these new market opportunities.

## FORTIFYING LEADERSHIP THROUGH CONTINUED IMPROVEMENT

As of the end of 2012, the Group had units with 2,730MW aggregate installed capacity and had strived to further increase the ratio of self-supplied electricity to approximately 70% by the end of 2013, so as to achieve a higher level of aluminum and electricity integration.

In the meantime, the Group continued to pursue the objective of upstream and downstream integration in 2012 through expanding industry chain, enriching product types and optimizing product structure, which ultimately further enhanced our market competitiveness. In December 2012, the Group announced an investment of US$1 billion together with relevant parties for the establishment of an alumina production Company in Indonesia. During the Year, some of the approvals and on-site feasibility studies had been completed. Phase one with alumina production line of designed annual production capacity of 1,000,000 tons is expected to be put into operation in 2015. Furthermore, during the Period under Review, the Group's production base in Zouping successfully established the project for the comprehensive utilization of coal fly ash for producing alumina with annual production capacity of 3,000,000 tons; trial production has been completed and the project is now in full operation. Therefore, in 2012, the self-supplied ratio of alumina, the Group's key raw material, reached approximately 42.8%, which contributed to the Group's enhanced control of production costs.

As for the extension into downstream businesses, the Group actively explored the high-end aluminum processing industry to diversify its product portfolio. During the Period under Review, the aluminum fabrication processing project with an annual production capacity of 30,000 tons commenced production gradually, and approximately 38,000 tons of processed aluminum alloy products were produced in 2012. Meanwhile, the Group continued its efforts in the thermal continuous rolling project and kept improving its level of aluminum processing technique to enhance the economic benefits of the Group. From a long-term development perspective, this continued expansion of industry chain will definitely strengthen the Group's businesses and its industry cluster advantage.

Looking forward, the Group will continue to pursue its objective of becoming a large-scale integrated aluminum product manufacturer in China's aluminum industry, possessing industry-leading cost advantages and vertically integrated industry chain, and deepen the integration of aluminum and electricity for further consolidation of our cost advantages and enhancement of our core competitiveness, while seeking further development of the integration of upstream and downstream businesses to realize the Group's sustained growth.

The Group remains steadfast and optimistic in our outlook for China's aluminum industry, although the overall industry is currently facing many challenges. With its competitive advantages, China Hongqiao is bracing itself for a period of growth opportunities in the industry. The Group will continue to seek improvements in various aspects including capacity expansion, broadening supply channels of raw materials, pursuing technological transformation and promoting energy conservation and consumption reduction, in order to further solidify our leading position in the industry. We shall continue to closely monitor both domestic and external macroeconomic trends and policy developments, and seek to capture precise timing in market opportunities. We firmly believe in the Group's ability in coping with various difficulties and challenges, as well as our capacity in grasping and creating development opportunities, so as to bring continuous and fruitful returns to the shareholders.

## APPRECIATION

The outstanding performance of the Group during the past year could not be achieved without the broad vision and right direction of our management. It was also the result of the tireless efforts and dedication of all employees of the Group. On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of them. We are also very grateful for the continued attention, support and trust of our shareholders and investors.

**Zhang Shiping**
*Chairman of the Board*

8 March 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

2012 was a year of both challenge and hope for most of the aluminum manufacturers in China. From a global economic environment point of view, global macroeconomy had been uncertain in 2012. Aluminum price fluctuated, and showed an overall declining trend from the level of 2011. Repercussions of the European debt crisis deteriorated and boosted up risk aversion of the market. These factors, coupled with China's continued tightening monetary policy, exerted many impacts on the aluminum market. Meanwhile, slowdown in the global economy also brought negative effects to aluminum price, which was hovering at a low level. As at the end of December 2012, the three-month aluminum futures price quoted on the LME was USD2,068 per ton, while the three-month aluminum futures price quoted on the SHFE was RMB15,465 per ton (value-added tax inclusive).

In terms of China's domestic supply and demand, with the gradual increase of electrolytic aluminum productivity in Northwest China in 2012 and the domestic electricity subsidy measures promulgated in the first half of 2012, the production of many electrolytic aluminum enterprises was resumed, which drove the productivity of aluminum to rise despite the adversity. Although these impacts had rendered domestic and overseas markets a challenging business environment in 2012, various favourable factors, including "12th Five-Year Plans" for various industries issued by the Ministry of Industry and Information Technology of China, sustained investment in construction of infrastructure by China's central government, rapid progress of industrialization and urbanization of China, expansion of usage of aluminum materials and etc., have been a strong support to the continuous increase in the demand for aluminum products.

According to Antaike, the global production volume of primary aluminum in 2012 was approximately 47,590,000 tons, representing an increase of approximately 4.3% as compared with that of 2011. The global consumption of primary aluminum in 2012 amounted to approximately 47,200,000 tons, representing an increase of approximately 5.7% from the previous year. For the domestic market, the production volume of primary aluminum in China in 2012 was approximately 22,300,000 tons, representing an increase of approximately 13.8% as compared with that of 2011. Along with China's rapid development in areas such as construction, electricity and railway, the consumption of primary aluminum in China in 2012 amounted to approximately 21,950,000 tons, representing an increase of approximately 9.5% as compared with that of 2011.

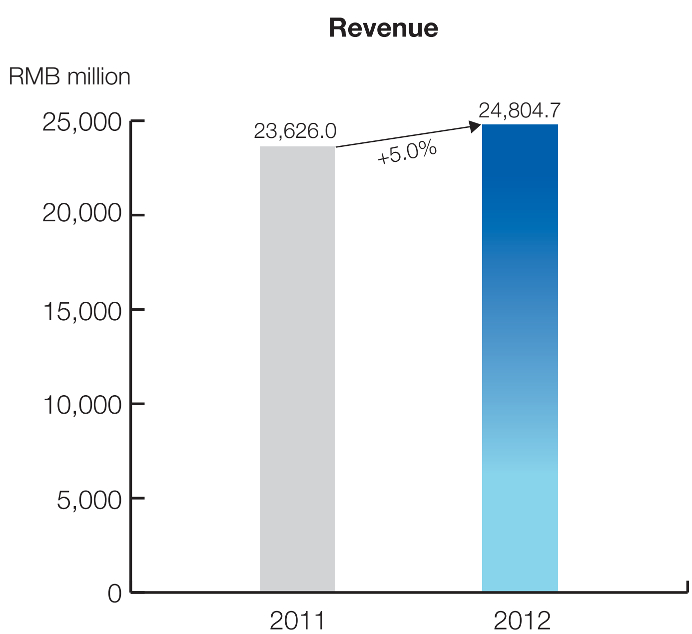
## BUSINESS REVIEW

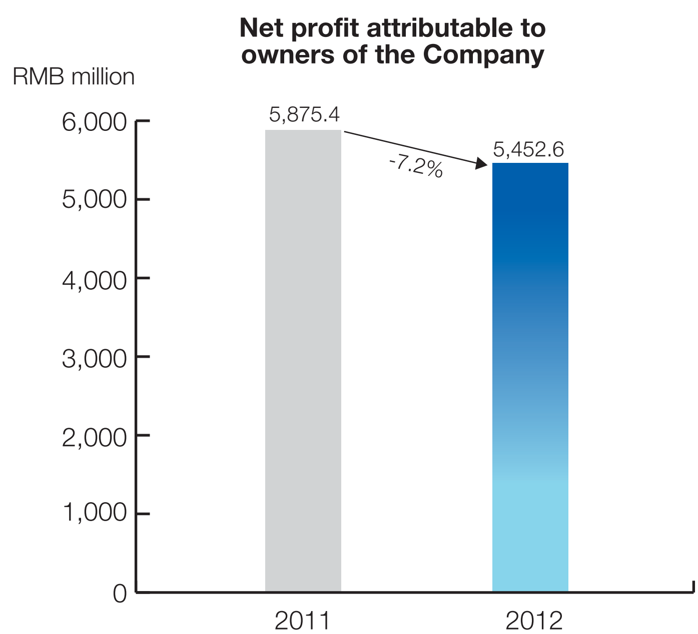
In 2012, the Group continued to enhance production capacity for aluminium products, thereby uplifting the self-supplied ratio of power and raw materials, expanding production chain as well as diversifying its products so as to further continuously improving its core competence and consolidate its leading position in the industry.

As of 31 December 2012, the Group's aggregate designed annual production capacity of aluminum products reached 2,016,000 tons (as of 31 December 2011: 1,776,000 tons), maintaining its position as the fourth largest aluminum product manufacturer in China (enterprise ranking source: Antaike). Driven by the increasing market demand, the Group's total output of aluminum products in 2012 amounted to approximately 1,821,000 tons, representing a year-on-year increase of approximately 14.2%. Output of aluminum alloy processed products reached approximately 38,000 tons.

During the Period under Review, to prepare for the future capacity expansion, in addition to our production bases in Zouping, Weiqiao and Binzhou, the Group's fourth production base in Huimin has commenced construction in the first half of 2012. This base has a designed annual production capacity for aluminum products of 600,000 tons, of which phase I with 200,000 tons production capacity of aluminum and ancillary captive power facilities are expected to come on stream in the first half of 2013.

The Group's revenue and net profit attributable to owners of the Company for the year ended 31 December 2012, with comparison figures for the year ended 31 December 2011, are as follows:



For the year ended 31 December 2012, the Group recorded revenue of approximately RMB24,804,742,000, representing a year-on-year growth of approximately 5.0%, mainly due to increases in the Group's sales volumes of aluminum products during the Year, which reached approximately 1,824,991 tons, representing an increase of approximately 15.1% from approximately 1,585,810 tons of sales volume in the previous year. The average selling price of our aluminum products decreased by approximately 8.0% from approximately RMB14,458 per ton in 2011 to approximately RMB13,297 per ton in 2012.

For the year ended 31 December 2012, net profit attributable to owners of the Company amounted to approximately RMB5,452,592,000, representing a year-on-year decrease of approximately 7.2%, mainly due to the decrease in the unit sale price of aluminum products as compared with the corresponding period of the previous year, and the decrease in profits resulted from the increase in part of the costs.

The table below is a comparison of the breakdown of revenue by products for the years ended 31 December 2012 and 2011:

**Revenue breakdown by products**

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| **Products** | **Revenue** | **Percentage of total revenue** | Revenue | Percentage of total revenue |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Molten aluminum alloy | **17,161,788** | **69.2** | 16,972,433 | 71.8 |
| Aluminum alloy ingots | **6,768,728** | **27.3** | 5,845,640 | 24.7 |
| Aluminum busbars | **107,062** | **0.4** | 102,955 | 0.4 |
| Aluminum alloy processed products | **228,534** | **0.9** | 7,361 | 0.1 |
| Steam | **538,630** | **2.2** | 697,642 | 3.0 |
| Total | **24,804,742** | **100.0** | 23,626,031 | 100.0 |

As for our products, the Group's revenue derived from aluminum products was approximately RMB24,266,112,000, accounting for approximately 97.8% of total revenue for the year ended 31 December 2012, among which the percentage share of aluminum alloy ingots in the revenue increased while the percentage share of molten aluminum alloy in the revenue decreased, which was mainly resulted from the increase in the production volume of aluminum alloy ingots because of the commencement of the new production facilities during commissioning period, leading to a corresponding revenue increase and greater share of the revenue. Revenue derived from sales of steam was approximately RMB538,630,000, accounting for approximately 2.2% of our total revenue. The decrease in the revenue derived from sales of steam was mainly because the Group used part of the steam during the process of the major raw materials production, thus the steam available for sale decreased accordingly.

## FINANCIAL REVIEW

### Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin derived from its major products for the years ended 31 December 2012 and 2011:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | | | 2011 | | |
| **Products** | **Revenue** | **Gross profit** | **Gross profit margin** | Revenue | Gross profit | Gross profit margin |
| | ***RMB'000*** | ***RMB'000*** | ***%*** | *RMB'000* | *RMB'000* | *%* |
| Aluminum products | **24,266,112** | **7,849,194** | **32.3** | 22,928,389 | 8,006,762 | 34.9 |
| Steam | **538,630** | **154,254** | **28.6** | 697,642 | 169,624 | 24.3 |
| Total: | **24,804,742** | **8,003,448** | **32.3** | 23,626,031 | 8,176,386 | 34.6 |

For the year ended 31 December 2012, the overall gross profit margin of the Group's products decreased by approximately 2.3 percentage points to approximately 32.3% as compared with approximately 34.6% in 2011. This was mainly due to the decrease in unit sale price of aluminum products as compared with the corresponding period of the previous year. With the gradual increase in self-supplied electricity ratio and the commencement of operation of major raw material production lines in producing aluminum products, the Group expects that these will bring positive impacts to our overall gross profit margin.

### Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 33.2% to approximately RMB58,667,000 for the year ended 31 December 2012 from approximately RMB44,054,000 for the previous year, which was mainly attributable to an increase in relevant marketing expenses of the Group.

### Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2012 amounted to approximately RMB306,068,000, representing an increase of approximately 83.2% as compared with approximately RMB167,033,000 for the previous year. Such an increase was mainly due to, on the other hand, the increase in employee headcounts and their remuneration for the expansion of the Group's production scale; on the other hand, the Group's building of new plant and increase in prepaid lease payments resulted in the increase in local tax payables and amortization of prepayment, and the increased issuance of the letter of credit for imported bauxite and equipment resulted in the increase in bank charges.

**Other expenses**

For the year ended 31 December 2012, other expenses of the Group amounted to approximately RMB20,121,000, which was mainly due to the fees of professional parties engaged by the Group.

**Finance costs**

For the year ended 31 December 2012, finance costs of the Group were approximately RMB642,731,000, representing an increase of approximately 113.7% as compared with approximately RMB300,819,000 for the previous year. This was mainly due to an increase in bank loans as compared with the corresponding period of the previous year, resulting in an increase in interest expenses charged to the Group.

**Liquidity and financial resources**

As at 31 December 2012, cash and cash equivalents of the Group were approximately RMB9,174,943,000, representing an increase of approximately 22.6% as compared with that of approximately RMB7,484,795,000 as at 31 December 2011.

The Group principally satisfies its demand for operating capital through cash inflow from operations. For the year ended 31 December 2012, the Group had a net cash outflow from investing activities of approximately RMB11,644,177,000, a net cash inflow from financing activities of approximately RMB7,113,554,000 and a net cash inflow from operating activities of approximately RMB6,220,771,000.

For the year ended 31 December 2012, the capital expenditures of the Group amounted to approximately RMB11,626,986,000, mainly for the expansion of its aluminum production capacity, the project for the comprehensive utilization of coal fly ash in producing alumina and the construction of its captive power supply facilities. In 2013, as the Group will continue to drive the progress of the integration of aluminum and electricity as well as the integration of upstream and downstream businesses, it is expected that the capital expenses of the Group will increase over 2012.

As at 31 December 2012, the Group had a capital commitment of approximately RMB19,351,966,000, representing capital expenditure in respect of acquisition of property, plant and equipment, primarily for the construction of the alumina production plant in Indonesia and the aluminum advanced processing facilities, as well as the production capacity expansion for aluminium products and the captive power production facilities.

For the year ended 31 December 2012 the Group's average trade receivables were the same as those of the previous year. It was mainly because the Group required prepayment before delivery, and if the value of actual shipment exceeded the prepayment, the Group would grant its customers a credit period of no more than 90 days, therefore, the Group's trade receivables turnover period was generally quite short.

For the year ended 31 December 2012, the Group's turnover days of inventory was approximately 55 days, representing an increase of approximately 19 days as compared with approximately 36 days of the previous year, which was mainly due to the increase in the inventory of raw materials required for its production with the expanded production scale of the Company.

**Contingent liability**

As of 31 December 2012, the Group had no contingent liability.

**Income tax**

The Group's income tax for 2012 amounted to approximately RMB1,947,961,000, representing a decrease of approximately 6.3% as compared with approximately RMB2,078,461,000 for the previous year, which was mainly attributable to the decrease of the Group's profit before taxation.

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

Net profit attributable to owners of the Company was approximately RMB5,452,592,000 for the year ended 31 December 2012, representing a decrease of approximately 7.2% as compared with approximately RMB5,875,410,000 in the previous year.

Basic earnings per share of the Company in 2012 were approximately RMB0.93 (2011: approximately RMB1.03).

**Capital structure**

We have built an appropriate liquidity risk management framework to secure our short-, medium- and long-term funding and to satisfy our liquidity management requirements. Cash and cash equivalents of the Group amounted to approximately RMB9,174,943,000 (31 December 2011: approximately RMB7,484,795,000) as at 31 December 2012 and were mainly deposited with commercial banks. It is used for ensuring the normal operation of the Group, capital expenditures of 2013 and repayment of short-term borrowings of the Group due in the first half of 2013. As at 31 December 2012, the total liabilities of the Group amounted to approximately RMB22,038,820,000 (31 December 2011: approximately RMB11,272,014,000). Gearing ratio (total liabilities to total assets) was approximately 49.7% (31 December 2011: approximately 38.0%).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable interest rates to manage its interest expenses. As at 31 December 2012, approximately 40.5% of the Group's bank borrowings were subject to fixed interest rates while the remaining approximately 59.5% were subject to floating interest rates.

The Group used its restricted bank deposits, part of oversea subsidiaries' shares, trade receivables and prepaid lease payments as collateral for its bank borrowings to finance its daily operations and project construction. As of 31 December 2012, the Company's secured bank borrowings amounted to approximately RMB2,914,424,000 (31 December 2011: approximately RMB1,125,703,000).

The Group aims to maintain a balance between the continuity and flexibility of funds through bank loans. As at 31 December 2012, approximately 47.2% of the Group's bank borrowings will become due within one year.

As at 31 December 2012, the Group's bank borrowings were mostly denominated in Renminbi and US dollars accounting for approximately 54.1% and approximately 43.6% of the total bank borrowings, respectively. Cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars, among which approximately 5.0% of the cash and cash equivalents was held in US dollars and approximately 0.2% of the cash and cash equivalents was held in HK dollars.

**Employee and remuneration policy**

As at 31 December 2012, the Group had a total of 29,296 employees, representing an increase of 11,185 employees as compared with the previous year. As a result of the expansion of its production capacity during the Year under Review, the Group recruited additional staff to meet the needs of the Group's production and enrich our reserve of human resources at the same time. During the Year, total staff costs amounted to approximately RMB1,043,784,000, representing approximately 4.2% of our revenue. The remuneration packages of our employees include salary and various types of benefits.

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

**Exposure to foreign exchange risk**

The Group collected all of its revenue in Renminbi and funded most of its capital expenditures in Renminbi. As certain bank balances and borrowings are denominated in foreign currencies, we are exposed to certain currency risks. As of 31 December 2012, our bank balances denominated in foreign currencies were approximately RMB474,661,000, and bank borrowings denominated in foreign currencies were approximately RMB6,473,392,000. For the year ended 31 December 2012, the Group recognized foreign exchange loss of approximately RMB419,000.

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

**An alumina production company established overseas**

On 27 December 2012, the Company entered into a joint venture agreement with Winning Investment (HK) Company Limited ("Winning Investment"), PT. Cita Mineral Investindo Tbk ("PT. Cita") and PT. Danpac Resources Kalbar ("PT. Danpac") in respect of the establishment of PT. Well Harvest Winning Alumina Refinery ("PT. Well Harvest"), to ensure the sufficient supply of upstream alumina and control the production cost. PT. Well Harvest is held as to 60% by the Company, 10% by Winning Investment, 25% by PT. Cita and 5% by PT. Danpac. Details of the Company's overseas establishment of PT. Well Harvest were disclosed in the announcement of the Company issued on 28 December 2012.

## SUPPLEMENTARY INFORMATION

## SUFFICIENCY OF PUBLIC FLOATING

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

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under articles of association of the Company (the "Articles of Association"), and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## THE BOARD OF DIRECTORS

As at 31 December 2012, the Board of the Company comprised four executive Directors, two non-executive Directors, three independent non-executive Directors.

The Board members are as follows:

**Executive Directors**
Mr. ZHANG Shiping *(Chairman)*
Ms. ZHENG Shuliang *(Vice Chairman)*
Mr. ZHANG Bo *(Chief Executive Officer)*
Mr. QI Xingli *(Chief Financial Officer)*

**Non-Executive Directors**
Mr. YANG Congsen
Mr. ZHANG Jinglei

**Independent Non-Executive Directors**
Mr. XING Jian
Mr. CHEN Yinghai
Mr. HAN Benwen

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

No Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2012 and up to the date of this announcement.

## EMOLUMENTS OF DIRECTORS

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board of the Company with reference to the Directors' duties, responsibilities and performance. None of the Directors waived any emoluments during the Year.

## MANAGEMENT CONTRACTS

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

## SUBSTANTIAL SHAREHOLDERS

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

As at 31 December 2012, the Directors and chief executive had the following interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong)) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be entered in the register described in the provisions pursuant to Section 352 of the SFO; or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules, were as follows:

**Long positions in the shares of the Company**

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

*Notes:*

(1) The interests of Mr. ZHANG Shiping in the Company were held through its wholly-owned subsidiary Hongqiao Holdings.

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

Save as disclosed above, as at 31 December 2012, none of the Directors or the chief executive of the Company or any of their spouse or children under the age of 18 had or were deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company or any of its holding companies, subsidiaries or associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, or notified to the Company and the Stock Exchange pursuant to the Model Code. At no time was the Company or any of its holding companies or subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company (including their spouse or children under the age of 18) to acquire any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

As at 31 December 2012, so far as it is known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name of shareholder | Capacity/type of interest | Number of total shares held | Approximate percentage of shareholding in issued shares (%) |
|---|---|---|---|
| Mr. ZHANG Shiping(1) | Interest of a controlled corporation | 5,000,000,000 | 84.96 |
| Ms. ZHENG Shuliang(2) | Interest of Spouse | 5,000,000,000 | 84.96 |
| Prosperity Eastern Limited(3) | Trustee | 5,000,000,000 | 84.96 |
| Hongqiao Holdings | Beneficial owner | 5,000,000,000 | 84.96 |

*Notes:*

(1) Mr. ZHANG Shiping is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the shares of the Company held by Hongqiao Holdings.

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

(3) Prosperity Eastern Limited as the trustee holding such interests in shares on behalf of Mr. ZHANG Shiping.

Save as disclosed above, as at 31 December 2012, no other person had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2012 and up to the date of this announcement, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the shares or debentures of the Company or any other associated corporations, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debentures of the Company or any other associated corporations or had exercised any such right in the period.

## FINAL DIVIDENDS

The Board has recommended the payment of a final dividend of HK$ 26.0 cents per share for the year ended 31 December 2012. The proposed final dividends, subject to the approval of the shareholders at the forthcoming annual general meeting, will be paid on 7 June 2013 to the shareholders whose names appear on the register of members of the Company on 24 May 2013.

## CLOSURE OF REGISTER OF MEMBERS

The share register of the Company will be closed from Friday, 3 May 2013 to Tuesday, 7 May 2013 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend the forthcoming annual general meeting of the Company and vote at the meeting, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on Thursday, 2 May 2013. The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The share register of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the final dividend, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on Tuesday, 21 May 2013. The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the Code of Best Practices for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of three independent non-executive Directors. An Audit Committee meeting was held on 8 March 2013 to review the consolidated financial statements of the Group for the year ended 31 December 2012. The Audit Committee considered that the annual financial results of the Group for the year ended 31 December 2012 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

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

The shares of the Company has been listed on the Stock Exchange since 24 March 2011. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the the year ended 31 December 2012 and up to the date of this announcement.

## CONVERTIBLE BONDS

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

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

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2012 and up to the date of this announcement.

## COMPLIANCE WITH PROVISIONS OF CORPORATE GOVERNANCE CODE

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

Pursuant to Code A.1.8 of the CG Code, issuers should arrange appropriate insurance coverage for directors' liabilities in respect of legal actions against the directors. As disclosed in the interim report of the Company date 23 August 2012, the Group had not yet identified any insurer who would provide insurance service to the Group at satisfactory commercial terms as at 30 June 2012. As at 31 December 2012, the Group has already identified an insurer who would provide insurance service to the Group at satisfactory commercial terms.

Saved as the above mentioned, for the year ended 31 December 2012, the Company was in compliance with the mandatory code provisions of the CG Code.

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

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.hongqiaochina.com. The annual report will be dispatched to shareholders on or before 22 March 2013 and will be available on the Company's website and the website of the Stock Exchange at the same time.


## ACKNOWLEDGEMENT

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


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

Shandong, the People's Republic of China

8 March 2013

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