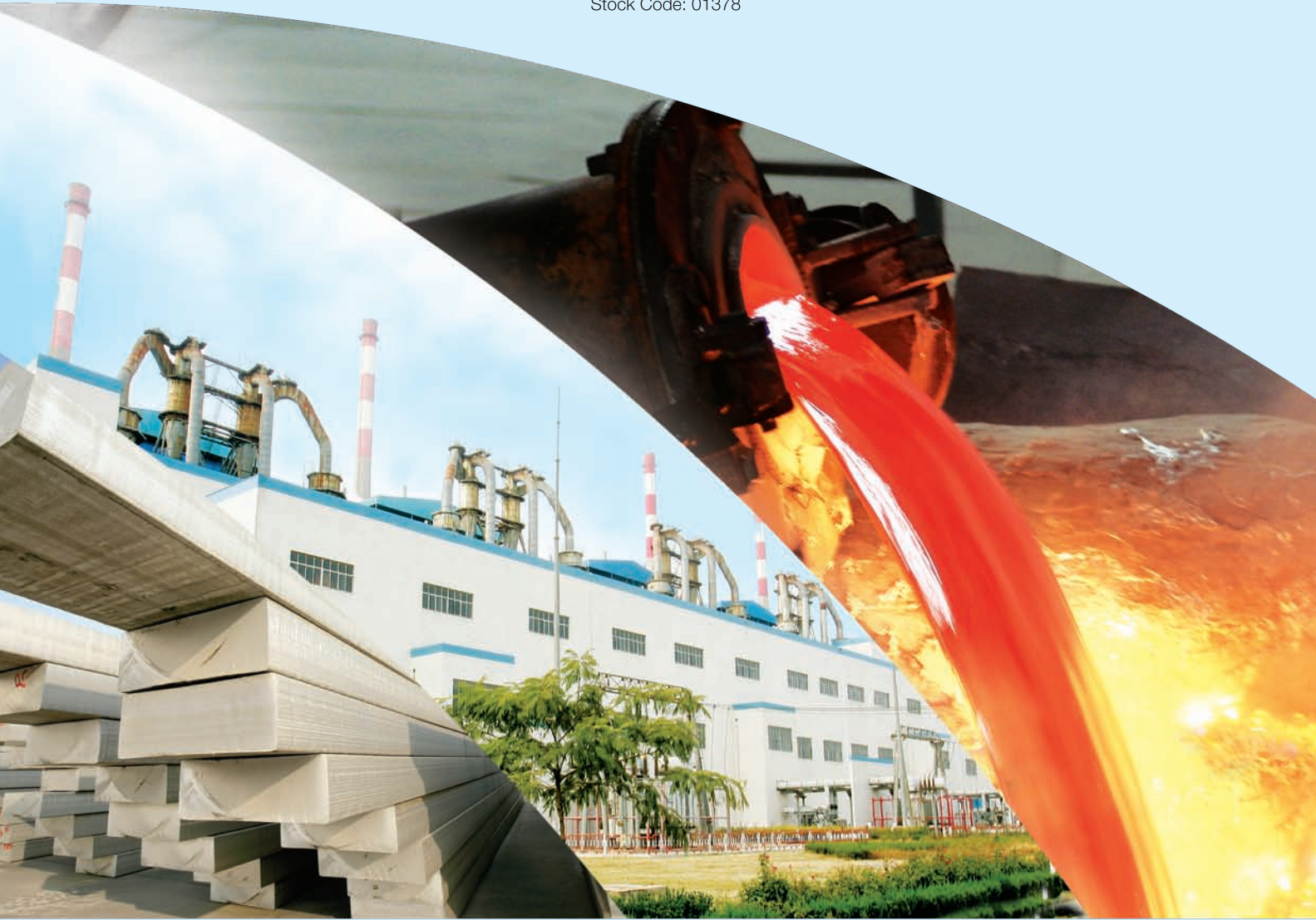


China Hongqiao Group Limited 中國宏橋集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock Code: 01378



GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor

J.P.Morgan

Joint Bookrunners and Joint Lead Managers

J.P.Morgan



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



China Hongqiao Group Limited

中國宏橋集團有限公司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 885,000,000 Shares (subject to the Over-allotment Option)
Number of International Offer Shares	: 796,500,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 88,500,000 Shares (subject to adjustment)
Maximum Offer Price	: HK\$8.30 per Offer Share payable in full on application subject to refund on final pricing, plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%
Nominal value	: US\$0.01 per Share
Stock code	: 1378

Sole Global Coordinator and Sole Sponsor

J.P.Morgan

Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix VII – “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

See “Risk Factors” for a discussion of certain risks that you should consider in connection with an investment in the Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) and us on the Price Determination Date which is expected to be on or around Friday, March 18, 2011 and, in any event, not later than Tuesday, March 22, 2011. The Offer Price will not be more than HK\$8.30 per Offer Share and is currently expected not to be less than HK\$7.20 per Offer Share. If for any reason, the Offer Price is not agreed by Tuesday, March 22, 2011 between the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters with prior consent of the Joint Bookrunners), with prior consent of our Company, may reduce the indicative Offer Price range and/or the number of Hong Kong Offer Shares below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In the case of such reduction, notices of the reduction in the indicative Offer Price range and/or the number of Hong Kong Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company’s website at www.hongqiaochina.com. Details of the arrangement will then be announced by us as soon as practicable. Further details are set out in the sections entitled “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the section entitled “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States except that the Offer Shares may be offered, sold or delivered to Qualified Institutional Buyers in reliance on Rule 144A or other exemption(s) from registration under the U.S. Securities Act or outside the United States in reliance on Regulation S under the U.S. Securities Act.

March 14, 2011

EXPECTED TIMETABLE⁽¹⁾

Application lists open⁽²⁾11:45 a.m. on Thursday, March 17, 2011

Latest time for lodging **WHITE** and **YELLOW**

Application Forms12:00 noon on Thursday, March 17, 2011

Latest time to complete electronic applications under

White Form eIPO service through the designated

website www.eipo.com.hk⁽³⁾11:30 a.m. on Thursday, March 17, 2011

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking transfers or

PPS payment transfer(s)12:00 noon on Thursday, March 17, 2011

Latest time to give **electronic application instructions**

to HKSCC⁽⁴⁾12:00 noon on Thursday, March 17, 2011

Application lists close12:00 noon on Thursday, March 17, 2011

Expected Price Determination Date⁽⁵⁾Friday, March 18, 2011

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and

• the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Hong Kong Stock Exchange's website at www.hkexnews.hk and our Company's website at www.hongqiaochina.com on or before

.....Wednesday, March 23, 2011

(2) Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.hongqiaochina.com (see paragraph entitled "Publication of results, dispatch/collection of share certificates and refunds of application monies" in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus) from

.....Wednesday, March 23, 2011

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk⁽⁶⁾ and the Company's website at www.hongqiaochina.com⁽⁷⁾ from

.....Wednesday, March 23, 2011

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a “search by ID” function on Wednesday, March 23, 2011

Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before Wednesday, March 23, 2011

Despatch of White Form e-Refund payment instructions/refund cheques on or before⁽⁸⁾ Wednesday, March 23, 2011

Dealings in the Shares on the Hong Kong Stock Exchange to commence on 9:00 a.m. on Thursday, March 24, 2011

Notes:

1. All times and dates refer to Hong Kong local time and dates. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.
2. If there is a “**black**” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, March 17, 2011, the application lists will not open or close on that day. Further information is set forth in the section headed “How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of Bad Weather Conditions on the Opening of the Application Lists” in this prospectus.
3. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. How to apply by giving electronic application instructions to HKSCC” in this prospectus.
5. The Price Determination Date is expected to be on or around Friday, March 18, 2011 and, in any event, not later than Tuesday, March 22, 2011. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) and our Company by Tuesday, March 22, 2011, the Global Offering will not proceed and will lapse.
6. The announcement will be available for viewing on the “Main Board – Allotment of Results” page on the Hong Kong Stock Exchange’s website www.hkexnews.hk and our Company’s website at www.hongqiaochina.com.
7. None of the website or any of the information contained on the website forms part of this prospectus.
8. e-Refund payment instructions/refund cheques will only be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price payable on application.

Share certificates are expected to be issued on Wednesday, March 23, 2011 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering”, “How to Apply for Hong Kong Offer Shares” and “Further Terms and Conditions of the Hong Kong Public Offering” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

CONTENTS

This prospectus is issued by China Hongqiao Group Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at www.hongqiaochina.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in our Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in our Offer Shares.

OVERVIEW

We were the fifth-largest aluminum product manufacturer in China, which is the fastest growing major aluminum market in the world, in terms of designed annual aluminum production capacity as of September 30, 2010, according to Antaike. As of the Latest Practicable Date, we had two manufacturing bases, Zouping Manufacturing Base and Weiqiao Manufacturing Base, with an aggregate designed annual production capacity of approximately 916,000 tons of aluminum products. In addition, our Binzhou Manufacturing Base commenced trial production in September 2010, which is expected to have an aggregate designed annual production capacity of approximately 310,000 tons of aluminum products, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us. Our designed production capacity of aluminum products on a weighted average annualized basis was approximately 301,513 tons, 601,085 tons, 738,973 tons and 916,000 tons for the three years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, with utilization rates of approximately 103.1%, 102.6%, 98.3% and 110.3%, respectively, during the same periods.

Our Products

Our aluminum products consist of molten aluminum alloy, aluminum alloy ingots and aluminum busbars. We began manufacturing aluminum products in 2006 by using self-manufactured electrolytic aluminum, which are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. For details of our aluminum production process, see "Business – Production Process." We sold approximately 276,712 tons, 610,057 tons, 731,043 tons and 747,027 tons of aluminum products for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our revenue generated from our aluminum products accounted for 100% of our revenue derived from our continuing operations for the years ended December 31, 2007, 2008 and 2009 and approximately 95.1% for the nine months ended September 30, 2010, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue derived from our aluminum products for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Compared with aluminum alloy ingots, molten aluminum alloy not only allows us to avoid incurring significant molding and other relevant costs, but also helps our customers to avoid cost for smelting or reheating aluminum alloy ingots for further processing as well as the relevant equipment, labor and storage costs. All of our aluminum alloy ingots are produced with self-manufactured molten aluminum alloy. Aluminum busbars are electrolytic aluminum blocks.

We are strategically headquartered in Zouping County, Shandong Province, one of the major aluminum product manufacturing bases in China, where a number of downstream aluminum fabrication product manufacturers are based. We are also connected to other major production bases of downstream aluminum fabrication products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province through developed transportation networks.

SUMMARY

The following table sets forth the sales volume, revenue and average selling price of, and percentage of our revenue derived from, each type of our aluminum products for the periods indicated:

	Year ended December 31,												Nine months ended September 30,								
	2007				2008				2009				2009				2010				
	Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		
	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue
Molten aluminum alloy	184,436	2,920.2	15,833	64.8%	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	310,891	3,591.1	11,551	58.0%	633,018	8,439.8	13,333	84.1%	(1)
Aluminum alloy ingot	92,276	1,588.1	17,210	35.2%	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	225,273	2,550.2	11,320	41.3%	109,573	1,525.8	13,925	15.2%	
Aluminum busbar	-	-	-	-	-	-	-	-	7,159	90.2	12,609	1.0%	3,408	40.9	12,010	0.7%	4,436	66.8	15,057	0.7%	
Total	276,712	4,508.3	16,292	100.0%	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	539,572	6,182.2	11,458	100.0%	747,027	10,032.4	13,430	100.0%	

- (1) The significant increase in our revenue attributable to our molten aluminum alloy products as a percentage of our total revenue for the nine months ended September 30, 2010 was primarily due to the significant increase in the sales volume of our molten aluminum products as a result of strong market demand, which outpaced our production output growth.

Our Customers

We sell all of our aluminum products to domestic customers, who are located mainly in Shandong Province as well as in other regions of China, such as in Northeastern, Southern, Eastern and Northern China. During the Track Record Period, our customers included downstream aluminum fabrication product manufacturers, who processed our aluminum alloy products into aluminum fabrication products, and traders, who in turn resold our aluminum products to downstream aluminum fabrication product manufacturers or other traders. We sell our products through our own sales and marketing team. All of our molten aluminum alloy customers are based in Zouping County and in close proximity to our manufacturing bases. Our five largest customers accounted for approximately 63.1%, 66.1%, 58.0% and 74.1% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our largest customer accounted for approximately 43.9%, 24.1%, 20.0% and 41.5% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. During the Track Record Period, among our five largest customers, those located in Zouping County are downstream aluminum fabrication product manufacturers, and those located outside of Zouping County are traders. As of the Latest Practicable Date, we had 55 customers.

Our Main Cost Items

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. In addition, we purchased electricity from Chuangye Group for 2007, 2008 and 2009, and we also purchased electricity from Gaoxin Aluminum & Power for 2008, 2009 and the nine months ended September 30, 2010. Gaoxin Aluminum & Power became our exclusive electricity supplier from January 2010. During the Track Record Period, we purchased coal through competitive bidding between a number of coal suppliers, which were Independent Third Parties, except that we purchased coal with a total price of approximately RMB442.1 million from Chuangye Group for 2009, which was priced at the then prevailing market price and accounted for approximately 50.9% of the amount of coal purchased by us for 2009. This was primarily because our secured coal supply was insufficient for our own electricity generating for that period due to the fact that we primarily purchased coal from the spot market in 2009, and we had to procure coal from Chuangye Group, which was our related party and had stable and sufficient coal supply due to its long-time operations of its own thermal power station and established long-term relationships with its coal

SUMMARY

suppliers, and such coal was all used for our power generation. Our Group has been able to procure sufficient coal for our power generation since then by entering into one-year coal supply agreements with some of our coal suppliers. See “Business – Procurement – Raw materials – Procurement of alumina”, “Business – Electricity Supply – Electricity suppliers” and “Business – Electricity Supply – Our thermal power station – Coal procurement.”

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its alumina business in the name of Aluminum & Power. This agreement expired on December 31, 2009. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. Since Chuangye Group’s disposal of the alumina production facilities to Gaoxin Aluminum & Power, neither Chuangye Group nor our Group has acquired any alumina production facilities or has been involved in alumina production or red mud production. If there is any environmental protection issues, including the red mud, with Gaoxin Aluminum & Power, as its major customer of alumina products, our reputation may be damaged. See “ – Alumina Production’s Environmental Impacts – Environmental Protection of Gaoxin Aluminum & Power’s Alumina Production Business from 2010 onwards.”

The following table sets forth our average purchase price of alumina, average purchase price of electricity and average coal consumption cost, and the market prices or benchmark prices of alumina, electricity and coal in China for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
Alumina				
Our average purchase price (RMB/ton)	2,379	2,495	1,712	1,590 ⁽¹⁾
Average spot market price of alumina in China (RMB/ton)	3,148	2,885	2,000	2,326
Electricity				
Our average electricity purchase price (RMB/kWh) ⁽²⁾	0.385	0.403 ⁽³⁾	0.442 ⁽³⁾	0.291 ⁽⁴⁾
Benchmark price of Shandong Province ⁽⁵⁾ (RMB/kWh)	0.303	0.311 ⁽⁶⁾	0.318	0.318
Coal				
Our average coal consumption cost ⁽⁷⁾ (RMB/ton)	415	661 ⁽⁸⁾	500	578
Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories ⁽⁹⁾⁽¹⁰⁾	359	543	445	544

- (1) Gaoxin Aluminum & Power became our sole alumina supplier from January 2010. Our Group does not have any alternative arrangement for the supply of alumina. In January 2011, we received feedback from four major alumina suppliers, two in Shandong Province, one in Beijing and one in Henan Province, which were willing to provide us with certain price discounts. However, as these suppliers are not as close to our production bases as Gaoxin Aluminum & Power, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin Aluminum & Power.
- (2) Our Directors have confirmed that the price of electricity supplied to us by Gaoxin Aluminum & Power was determined through arm’s length negotiation between Gaoxin Aluminum & Power and us.
- (3) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power network by Gaoxin Aluminum & Power. Our Directors have confirmed that it is a market norm for the customers to bear the construction cost of power networks in the off-the-grid electricity market. See “Business – Electricity Supply – Electricity suppliers.”

SUMMARY

- (4) Our average purchase price of electricity for the nine months ended September 30, 2010 was lower than that of 2008 and 2009, which was primarily due to the fact that the construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power's generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin Aluminum & Power for the nine months ended September 30, 2010 was lower than the price of electricity purchased by us from Chuangye Group for 2008 and 2009.
- (5) The benchmark price of Shandong Province is set by the Shandong Provincial Government and it refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier's operations and other factors.
- (6) This is the average benchmark price as the benchmark price was RMB0.303 per kWh from January 1, 2008 to June 30, 2008, and RMB0.318 from July 1, 2008 to December 31, 2008.
- (7) Our Group's average coal consumption cost is inclusive of transportation cost in China.
- (8) Our Group's average coal consumption cost was significantly higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories for 2008, which was primarily due to the fact that a large percentage of the coal consumed by our Group was of an average calorific value higher than 5,000 kilocalories for 2008.
- (9) According to Antaike, the Qinhuangdao coal price is the most frequently quoted benchmark price in the coal markets in Shandong Province and other regions in China, and is inclusive of transportation cost of coal transported to Qinhuangdao port, which is the largest coal shipping port in the world. Our Directors believe that Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories is most relevant to our average coal consumption cost.
- (10) *Source:* www.cctd.com.cn (中國煤炭市場網).

The following table sets forth, assuming that we purchased alumina at the average spot market price in China for the Track Record Period and we purchased electricity at the benchmark price of Shandong Province for the nine months ended September 30, 2010, which were higher than our average purchase prices of alumina and electricity, and that all other factors, including change in inventories, remain unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB in millions)			
Net profit of continuing operations (before minority interests)	903.9	283.6	577.1	2,965.4
Difference of alumina ⁽¹⁾	(298.0)	(350.9)	(300.5)	(789.1)
Difference of electricity ⁽²⁾	-	-	-	(89.6)
Adjusted net profit of continuing operations (before minority interests) ⁽³⁾	605.9	(67.3)	276.6	2,086.7

- (1) Difference of alumina = actual purchase volume of alumina for the relevant period × (weighted average actual purchase price of alumina by our Group for the relevant period – average spot market price of alumina in China for the relevant period) × (1- statutory tax rate of the relevant period)
- (2) Difference of electricity = actual purchase volume of electricity for the relevant period × (weighted average actual purchase price of electricity by our Group for the relevant period – benchmark price of Shandong Province for the relevant period) × (1- statutory tax rate of the relevant period)
- (3) As our average coal consumption costs were higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories during the Track Record Periods, it is not necessary to make the adjustment to our financial results based on coal price changes.

Our Company and the Sole Sponsor are of the view that this analysis of the above-mentioned scenario is accurate and reasonable.

SUMMARY

Procurement of Alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 63.2%, 69.1%, 73.4% and 61.6% of our total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our aggregate alumina purchase costs amounted to approximately RMB1,374.7 million, RMB2,996.0 million, RMB2,382.3 million and RMB2,272.7 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, and the average purchase price that we paid was approximately RMB2,379 per ton, RMB2,495 per ton, RMB1,712 per ton and RMB1,590 per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina was approximately RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, in China.

Alumina Procurement from Chuangye Group from 2007 to 2009

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, which expired on December 31, 2009. At the time of the Agency Agreement, Aluminum & Power was a subsidiary of Chuangye Group. See “History and Reorganization – Shareholding History of our PRC Subsidiaries – (3) Aluminum & Power.” We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009. Chuangye Group is a company in which Mr. Zhang directly and indirectly held approximately 33.72% equity interest as of the Latest Practicable Date.

Key features of the Alumina Agency Business

The key features of this agency arrangement include:

- (i) Chuangye Group operated its alumina business in the name of Aluminum & Power, and Aluminum & Power was responsible for the sales of alumina, procurement of raw materials, incurrence of operating expenses, collection of proceeds from settlement of trade receivables and payment of the liabilities in connection with the procurement of raw materials and operating expenses in Aluminum & Power’s name for and on behalf of Chuangye Group and executed all of the legal documents pertinent to the alumina production business;
- (ii) Chuangye Group held the titles and ownership of the assets pertinent to the alumina production business (such assets were injected into Aluminum & Power as a partial contribution to its registered capital by Chuangye Group and were eventually transferred back to Chuangye Group on June 5, 2006. See “History and Reorganization – Shareholding History of Our PRC Subsidiaries – (3) Aluminum & Power.”) and was responsible for the production of alumina;
- (iii) the liabilities, risks and results relating to the alumina production business were all attributable to Chuangye Group and the accumulated profits from the alumina production business were paid by Aluminum & Power to Chuangye Group;
- (iv) all taxation pertinent to the alumina production business was paid by Aluminum & Power and was charged back to Chuangye Group;
- (v) Chuangye Group paid Aluminum & Power a management fee for the sales of alumina to third parties at a rate of RMB400, RMB200, and RMB100 per ton for the three years ended December 31, 2007, 2008 and 2009, respectively, which was determined based on the assumption that the increasing sales volume of alumina during the term of the Agency Agreement would offset the decrease in the management fee rate;
- (vi) Aluminum & Power was entitled to purchase alumina from Chuangye Group at production cost during the term of the Agency Agreement; and
- (vii) all of the employees engaged in the alumina production business were employed by Chuangye Group and their salaries were paid by Aluminum & Power on behalf of Chuangye Group, which were charged back to Chuangye Group.

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The Agency Agreement was valued at RMB443.0 million by Jones Lang LaSalle Sallmanns Limited, an independent valuer, as intangible assets at the time when our Group obtained control of Aluminum & Power, which was fully amortized from June 2006 to December 2009.

The following table sets forth the management fee rate and the total management fee we received from Chuangye Group pursuant to the Agency Agreement for the periods indicated:

	Year ended December 31,		
	2007	2008	2009
Management fee rate (RMB per ton)	400	200	100
Total management fee (RMB in thousand)	900,314	362,889	154,982

In addition, as part of the agency arrangement, Aluminum & Power entered into a steam supply agreement with Chuangye Group on December 20, 2006, pursuant to which Aluminum & Power supplied steam to Chuangye Group for its alumina production free of charge. For 2007, 2008 and 2009, we provided approximately 121,647 tons, 603,817 tons and 2,104,252 tons of steam to Chuangye Group, respectively.

The alumina production facilities owned by Chuangye Group at the time are located in Zouping Economic Development District and are in close proximity to our Zouping Manufacturing Base. These alumina production facilities are physically separated from our aluminum production facilities and other facilities.

Background of the Alumina Agency Business

(a) Our considerations

Before entering into the alumina agency arrangement, the then director and senior management of Aluminum & Power, namely Mr. Zhang and Mr. Yang Congsen, have considered:

- (i) the terms of the Agency Agreement, including the collection of management fees and the assumption of all liabilities, risks and losses in connection with the alumina production business by Chuangye Group;
- (ii) Chuangye Group's ability and willingness to perform its obligations under the Agency Agreement based on its scale of operations and financial position; and
- (iii) the internal control policies and compliance mechanisms of the alumina production business, including production safety management documents.

The then director and senior management of Aluminum & Power were of the view that:

- (i) the terms of the Agency Agreement were reasonable and in the interest of our Group;
- (ii) this alumina agency arrangement would not only secure Aluminum & Power a stable supply of alumina, but was also financially favorable to Aluminum & Power through the collection of management fees, thereby improving its profitability and financial flexibility to better carry out its development plan; and
- (iii) Chuangye Group would be able and willing to perform its obligations under the Agency Agreement.

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(b) Chuangye Group's considerations

As confirmed by Chuangye Group, it entered into this transaction which was favorable to Aluminum & Power as Aluminum & Power was its subsidiary at that time and would be its related party after Aluminum & Power was acquired by Shandong Hongqiao on June 9, 2006. In addition, Chuangye Group also derived the following benefits for its alumina production business by entering into the Agency Agreement with Aluminum & Power, including:

- (i) the free supply of steam by Aluminum & Power to Chuangye Group for its alumina production until December 2009;
- (ii) the assumption of working capital by Aluminum & Power under the alumina agency arrangement;
- (iii) the procurement of a large amount of alumina by Aluminum & Power from Chuangye Group which allowed Chuangye Group to achieve a higher and more stable utilization rate of its alumina manufacturing facilities, which in turn helped Chuangye Group reduce its unit cost of sales of alumina and minimize the potential chemical deterioration of the alumina production equipment of Chuangye Group as a result of under-utilization; and
- (iv) the operation of the alumina business in the name of Aluminum & Power allowed Chuangye Group to focus on and enhance its corporate profile as one of the largest textile companies in the PRC at that time.

Alumina Procurement from Gaoxin Aluminum & Power from 2010 onwards

Gaoxin Aluminum & Power was our sole alumina supplier for the nine months ended September 30, 2010

Gaoxin Aluminum & Power, an Independent Third Party, started to provide us with alumina from January 1, 2010, and it has been our sole alumina supplier since then. Gaoxin Aluminum & Power agreed to provide us with price discounts with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of the relevant year, which will be determined through negotiation. Our average alumina purchase price was RMB1,590 per ton for the nine months ended September 30, 2010, which was lower than the average spot market price of alumina of RMB2,326 per ton in China for the same period. This is also an important factor that contributed to the significant increase in our net profit for the nine months ended September 30, 2010. For details of the pricing mechanism of alumina provided by us from Gaoxin Aluminum & Power, see "Business – Procurement – Raw materials – Procurement of alumina." For the nine months ended September 30, 2010, we purchased approximately 1,429,405 tons of alumina from Gaoxin Aluminum & Power. As advised by Gaoxin Aluminum & Power, we purchased approximately 48.1% of total volume of alumina sold by Gaoxin Aluminum & Power for the nine months ended September 30, 2010, and we were Gaoxin Aluminum & Power's largest customer for the same period. As advised by Gaoxin Aluminum & Power, it had more than 150 alumina customers as of the Latest Practicable Date. In addition, as advised by Gaoxin Aluminum & Power, it had an aggregate designed annual production capacity of approximately 4,000,000 tons of alumina and more than 8,000 employees as of September 30, 2010. As advised by Gaoxin Aluminum & Power, it was profit making for both 2009 and 2010 and its net assets value as of December 31, 2010 was more than RMB5.8 billion. Gaoxin Aluminum & Power indicated that its current alumina pricing arrangement with our Group is commercially sustainable for its business. As advised by Gaoxin Aluminum & Power, after the acquisition of the alumina business, Gaoxin Aluminum & Power's alumina business was profit making for 2010. However, if there is any material adverse change in Gaoxin Aluminum & Power's business, financial condition and results of operations, or it is unwilling or unable to provide us with high quality alumina and electricity in required quantities and at commercially acceptable prices, or if it enters into bankruptcy proceedings, our business, financial condition and results of operations would be materially and adversely affected. See "Risk Factors – Risks Relating to Our Business – If there is any material adverse change in Gaoxin Aluminum & Power's business, financial condition and results of operations, our business, financial condition and results of operations would be materially and adversely affected."

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Chuangye Group and Gaoxin Aluminum & Power used different pricing mechanisms for the alumina provided to us. For the impact of such change on our Group, see “– The impact of the change in the pricing mechanism of alumina on the Group.”

Background of Gaoxin Aluminum & Power

Gaoxin Aluminum & Power is a limited liability company incorporated under the laws of the PRC on January 24, 2007, which is wholly-owned by Shandong Yunda Investment Management Company Limited. Gaoxin Aluminum & Power is located in Zouping County, Shandong Province, the PRC. The controlling shareholder of Shandong Yunda Investment Management Company is the Labor Union Committee of Shandong Zouping Economic Development Zone, or the Labor Union Committee, which holds approximately 74.6% of the equity interests in Shandong Yunda Investment Management Company Limited. The members of the management committee of the Labor Union Committee are the principal officials of the Shandong Zouping Economic Development Zone. As advised by Gaoxin Aluminum & Power, it has not had any change in its shareholding structure since incorporation.

As confirmed by Gaoxin Aluminum & Power, as at the Latest Practicable Date, none of its senior management member or its sole director holds any position in the PRC government. The Shandong Binzhou Economic Development Zone Management Committee, or the Management Committee, is a governmental body established by the People’s Government of Zouping County and is in charge of the daily administration of the Zouping Economic Development Zone. The members of the Management Committee are not otherwise involved in the operations of the People’s Governments of Binzhou City or Zouping County.

According to Gaoxin Aluminum & Power, it currently has five bauxite suppliers in Indonesia and India. As advised by Gaoxin Aluminum & Power, as of December 31, 2010, approximately 69.7% of property, plant and equipment was attributable to its electricity business and approximately 30.3% of property, plant and equipment was attributable to its alumina business. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power for approximately RMB3.1 billion based on the valuation of the alumina production facilities on December 25, 2009 by Shandong Jianxin Asset Appraisal Company Limited, an independent third party valuer, which was fully paid by Gaoxin Aluminum & Power in instalments in cash by April 2010. As advised by Gaoxin Aluminum & Power, it used funds generated in its internally generated cash flow and shareholder loans. See “Business – Procurement.”

Both our Group and our Controlling Shareholders have confirmed that none of our Group, our Controlling Shareholders, the Directors or their respective associates has directly or indirectly provided assistance of any form to finance Gaoxin Aluminum & Power’s acquisition of these alumina production facilities from Chuangye Group, including providing any guarantee to the loans that Gaoxin Aluminum & Power might have obtained to finance this acquisition or entering into any agreement to so assist.

Alumina supply agreement between Gaoxin Aluminum & Power and us

We entered into an alumina supply agreement with Gaoxin Aluminum & Power in December 2009 after Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. This Agreement has a term from January 1, 2010 to December 31, 2012 and is renewable upon expiration. Our Directors and the Sole Sponsor are of the view that Gaoxin Aluminum & Power and its associates are independent third parties to Chuangye Group. As confirmed by Chuangye Group, it sold its alumina production facilities to focus on its textile business, and Gaoxin Aluminum & Power had financial capability to purchase the alumina production facilities at that time. As advised by Gaoxin Aluminum & Power, it acquired the alumina production facilities with a view to leveraging its own electricity generating capacity. Since Chuangye Group’s disposal of the alumina production facilities to Gaoxin Aluminum & Power, neither Chuangye Group nor our Group has acquired any alumina production facilities or has been involved in

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alumina production or red mud production. Pursuant to the alumina supply agreement, we and Gaoxin Aluminum & Power agreed to determine the base price of alumina provided to our Group with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of the relevant year. In addition, Gaoxin Aluminum & Power agreed to provide us with price discounts, and the price of alumina provided to us by Gaoxin Aluminum & Power is equal to the price of alumina offered to other third parties by Gaoxin Aluminum & Power minus an amount reflecting the following factors:

- our long-term commitment;
- that our purchase volume is more than one million tons each year, which materially reduces Gaoxin Aluminum & Power's unit cost of alumina production;
- that we pick up the alumina in bulk by ourselves, which materially reduces the packaging and distribution costs of Gaoxin Aluminum & Power; and
- that we maintain a deposit of RMB400 million, which provides Gaoxin Aluminum & Power with extra liquidity.

Such price discounts are determined through negotiation between Gaoxin Aluminum & Power and us from time to time, and are subject to our actual purchase volume and the supply and demand dynamics in the alumina and aluminum industries. See "Business – Procurement – Raw materials – Procurement of alumina." Gaoxin Aluminum & Power became our largest supplier and sole alumina supplier in 2010. See "Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected."

Since alumina is a commodity readily tradable in the market and, according to Antaike, there is currently an over-supply of alumina in Shandong Province and in other regions of China, we do not have any alternative arrangement for the supply of alumina. Our Directors believe that we are able to source alumina from alternative suppliers domestically or overseas in a timely manner in case Gaoxin Aluminum & Power is not able to provide our Group with alumina in sufficient quantities or at all. However, the price of such alumina supplied by third party suppliers (other than Gaoxin Aluminum & Power) may be significantly higher than that of the alumina supplied to us by Gaoxin Aluminum & Power. In January 2011, we received feedback from four major alumina suppliers, two in Shandong Province, one in Beijing and one in Henan Province. These alumina suppliers were willing to supply alumina to us. These potential alternative suppliers had a total annual capacity to produce or supply approximately 9 million tons of alumina, and they indicated that they were able to provide approximately 250,000 tons of alumina to us every month, which our Directors believe should be adequate to meet our demand. In addition, they were also willing to provide us with certain price discounts because we are a reputable aluminum manufacturer in China and have a large demand for alumina. However, as these suppliers are not as close to our production bases as Gaoxin Aluminum & Power, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin Aluminum & Power. In addition, these commitments are not legally binding, and we are not able to guarantee you that these suppliers will fully honor their commitments in the future. We are not able to assure you that we will be able to find alternative sources of alumina at the same price level offered by Gaoxin Aluminum & Power or at otherwise commercially acceptable prices or terms in a timely manner, or at all. If we fail to do so, it would have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected."

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The impact of the change in the pricing mechanism of alumina on the Group

As the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin Aluminum & Power are different, our historical raw materials cost and product cost structure may not be indicative of our raw materials cost and product cost structure in the future. As a result, investors may have difficulties in evaluating our business and prospects because our historical performance may not be indicative of our business, financial condition and results of operations in the future. See “Risk Factors – Risks Relating to Our Business – It may be difficult for investors to evaluate our business and prospects due to our limited operating history and changes in our cost structure.”

The following table sets forth our average purchase price of alumina from Chuangye Group for 2007, 2008 and 2009 and from Gaoxin Aluminum & Power for the nine months ended September 30, 2010, and the average spot market price of alumina in China, according to Antaike, for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB)	(RMB)	(RMB)	(RMB)
Chuangye Group	2,379	2,495	1,712	–
Gaoxin Aluminum & Power	–	–	–	1,590
Average spot market price of alumina in China	3,148	2,885	2,000	2,326

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. Our purchase price of alumina provided by Chuangye Group increased from RMB2,379 per ton for 2007 to RMB2,495 per ton for 2008, and decreased to RMB1,712 per ton for 2009, which was primarily due to the price fluctuations of bauxite, which increased from 2007 to 2008, and then decreased from 2008 to 2009, according to Antaike. Although, according to Antaike, bauxite prices rebounded slightly for the nine months ended September 30, 2010, such prices still remained relatively low. As a result of and based on our negotiation with Gaoxin Aluminum & Power, our purchase price of alumina provided by Gaoxin Aluminum & Power further decreased to RMB1,590 per ton for the same period. Due to our arrangements with Chuangye Group and Gaoxin Aluminum & Power described above, our average purchase prices of alumina from Chuangye Group and Gaoxin Aluminum & Power were lower than the average spot market prices of alumina in China during the Track Record Period. If we had purchased alumina at the average spot market prices in China during the Track Record Period, and assuming all other factors, including change in inventories, remain unchanged, our total purchase costs of alumina would have increased by approximately RMB444.8 million, RMB467.9 million, RMB400.7 million and RMB1,052.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Electricity Supply

Electricity is also one of the principal cost components in manufacturing our aluminum products. Our electricity cost was approximately RMB2,374.1 million for the nine months ended September 30, 2010, accounting for approximately 36.5% of the cost of sales during that period. During the Track Record Period, we purchased electricity from Chuangye Group and Gaoxin Aluminum & Power. To further secure a stable electricity supply, our own thermal power station started to supply electricity to us in January 2007. As of the Latest Practicable Date, our power station had an aggregate installed capacity of 1,080 MW.

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We entered into an electricity supply agreement with Gaoxin Aluminum & Power in June 2008, and Gaoxin Aluminum & Power started to supply off-the-grid electricity to us in July 2008. In China, as off-the-grid electricity does not use the state-owned grid system for transmission, the price of off-the-grid electricity does not include the grid transmission fee, and as a result, is lower than that of on-the-grid electricity. As of the Latest Practicable Date, Gaoxin Aluminum & Power had an installed capacity of 1,280 MW. Pursuant to this electricity supply agreement, which is based on normal commercial terms, the base price is RMB0.34 per kWh (inclusive of VAT, which equals to RMB0.29 per kWh exclusive of VAT), assuming that the base price of coal with a heat value of 5,000 kilocalories per kilogram is at RMB700 per ton (inclusive of VAT, which equals to approximately RMB598 per ton exclusive of VAT), which is subject to adjustment through negotiation if the price fluctuation of coal exceeds 20%. This electricity supply agreement does not have a definite term and it will remain effective unless it is terminated by a 90-day prior written notice provided by any party. Pursuant to this electricity supply agreement, Gaoxin Aluminum & Power built a power network to connect our facilities to the generators. The construction cost was reimbursed by us and was amortized and included in the electricity price that we actually paid to Gaoxin Aluminum & Power from June 2008 to December 2009, which was fully settled as of December 31, 2009. We have recognized such construction cost as part of the electricity purchase price in our cost of sales in 2008 and 2009. Gaoxin Aluminum & Power also supplies electricity to companies in chemical and other industries and residents in the region where it carries out its business in Zouping County.

We purchased electricity from Gaoxin Aluminum & Power for an aggregate amount of approximately RMB688.2 million, RMB1,929.8 million and RMB1,243.9 million for 2008, 2009 and the nine months ended September 30, 2010, respectively, accounting for approximately 20.4%, 49.9% and 52.4% of our total electricity cost for the same periods, respectively. We usually make full payment before we receive electricity from Gaoxin Aluminum & Power. We make prepayments in several instalments to Gaoxin Aluminum & Power every month and Gaoxin Aluminum & Power settles the purchase price of electricity with us by issuing invoices to us at the end of every month based on our actual purchase amount. The amount of each such prepayment is determined based on the estimated amount of electricity to be consumed during the period covered by such prepayment. As advised by Gaoxin Aluminum & Power, it had more than 110 electricity customers as of the Latest Practicable Date, and we were its largest electricity customer for the nine months ended September 30, 2010.

Our Performance

For the three years ended December 31, 2009

We achieved significant growth in our sales volume of aluminum products during the Track Record Period. The sales volume of our aluminum products increased by approximately 120.5% to approximately 610,057 tons for 2008 from approximately 276,712 tons for 2007. With the onset of the global economic downturn in the second half of 2008, the growth rates of aluminum production and consumption in China slowed down and the price of aluminum products experienced dramatic fluctuations in 2008 and 2009. As a result, our gross profit decreased significantly to approximately RMB533.5 million and approximately RMB899.3 million for 2008 and 2009, respectively, from approximately RMB1,390.4 million for 2007, and our net profit decreased significantly to approximately RMB283.6 million and approximately RMB577.1 million for 2008 and 2009, respectively, from approximately RMB903.9 million for 2007. In response to the global economic downturn, we closely monitored the market and negotiated purchase prices of coal and raw materials according to market conditions, reduced electricity consumption in our production process, strengthened our inventory management and quality control, optimized our manufacturing processes, and solidified our market position by establishing new sales and marketing teams covering Eastern and Southern China. Although our revenue from continuing operations decreased to approximately RMB8,668.4 million for 2009 from approximately RMB8,772.2 million for 2008, our results of operations for 2009 improved compared to our results of operations for 2008. The unit cost of our aluminum products sold decreased to approximately RMB10,627 per ton for 2009 from approximately

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RMB13,505 per ton in 2008 and the volume of aluminum products sold increased by approximately 19.8% to approximately 731,043 tons for 2009 from approximately 610,057 tons for 2008. The net profit from our continuing operations increased by approximately 103.5% to approximately RMB577.1 million for 2009 from approximately RMB283.6 million for 2008.

The following table sets forth the unit cost of sales of our aluminum products for the periods indicated:

	For the year ended December 31,		
	2007	2008	2009
Unit cost of sales of our aluminum products (RMB/ton)	11,268	13,505	10,627

Our unit cost of sales of aluminum products sold decreased to RMB10,627 per ton for 2009 from RMB13,505 per ton for 2008, because our cost of sales decreased while our sales volume of aluminum products increased, which was in turn primarily due to a decrease in purchase of raw materials, as well as a decrease in unit electricity cost. Our unit cost of sales of aluminum products increased to RMB13,505 per ton for 2008 from RMB11,268 per ton for 2007, because our cost of sales increased by a larger percentage than the increase in our sales volume of aluminum products, which was in turn primarily due to an increase in the unit cost of electricity, as partially offset by a decrease in the unit cost of alumina.

The following table sets forth the average alumina purchase cost and average electricity cost for a ton of aluminum products sold by us for the periods indicated:

	For the year ended December 31,		
	2007	2008	2009
	(RMB)	(RMB)	(RMB)
Alumina ¹	4,968	4,911	3,259
Electricity ²	4,190	5,543	5,295

Notes:

1. The unit cost of alumina equals to the total purchase cost of alumina for the period indicated divided by the total volume of aluminum products sold by us for such period.
2. The unit cost of electricity equals to the total purchase cost of electricity from external supplier and the cost of electricity generated internally by our thermal power station, which are allocated to the cost of our aluminum products sold, for the period indicated divided by the total volume of aluminum products sold by us for such period.

The purchase cost of alumina for a ton of aluminum products sold dropped significantly from 2008 to 2009 due to the decreased purchase price of alumina as a result of a decline in the price of bauxite, which is the major raw material for the production of alumina, driven by the global economic downturn. The purchase cost of alumina for a ton of aluminum products remained relatively stable from 2007 to 2008.

The unit cost of electricity for a ton of our aluminum products sold remained relatively stable from 2008 to 2009. The unit cost of electricity for a ton of our aluminum products sold increased significantly from 2007 to 2008, primarily due to (i) the higher prices of electricity purchased from Chuangye Group and Gaoxin Aluminum & Power, and (ii) an increase in our average cost to generate electricity driven by higher coal prices for 2008 prior to the global economic downturn.

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For the nine months ended September 30, 2009 and September 30, 2010

Revenue

Our revenue increased by approximately 70.6% to approximately RMB10,546.5 million for the nine months ended September 30, 2010 from approximately RMB6,182.2 million for the nine months ended September 30, 2009, primarily due to an increase in both our sales volume and average selling price of our aluminum products. Our sales volume of aluminum products increased by approximately 38.4% to approximately 747,027 tons for the nine months ended September 30, 2010 from approximately 539,572 tons for the nine months ended September 30, 2009 primarily due to our increased production capacity and output as a result of an increased market demand as the PRC economy recovered. The average selling price of our aluminum products increased by approximately 17.2% to approximately RMB13,430 per ton for the nine months ended September 30, 2010 from approximately RMB11,458 per ton for the nine months ended September 30, 2009 in line with the general increase in market prices of aluminum products as a result of the increase in demand for aluminum products as the PRC economy recovered. In addition, we started selling steam to Gaoxin Aluminum & Power in 2010 and generated revenue of approximately RMB514.1 million for the nine months ended September 30, 2010, which also contributed to the increase in our revenue. Our Group determined our selling price of aluminum products based on the spot market price¹, which was mainly driven by the demand for and supply of aluminum products in the PRC. For the nine months ended September 30, 2010, the spot market price for aluminum products increased due to the increase in demand for aluminum products as a result of the recovery in the PRC economy, which was also in line with the price trend of the spot market price for alumina during the same period.

Unit cost of aluminum products

The following table sets forth the unit cost of sales of our aluminum products for the periods indicated:

	Nine months ended September 30,	
	2009	2010
Unit cost of sales of our aluminum products (RMB/ton) . . .	10,807	8,256

Our unit cost of sales of aluminum products sold decreased to RMB8,256 per ton for the nine months ended September 30, 2010 from RMB10,807 per ton for the nine months ended September 30, 2009, because our cost of sales increased by a smaller percentage than the increase in our sales volume of aluminum products, which was in turn primarily due to significant decreases in electricity cost per kWh and the unit cost of alumina, partially offset by an increase in the unit cost of carbon anodes.

¹ As disclosed under the sub-paragraph “Sales contract term” of the section headed “Business” in this prospectus, for our products sold in China other than Guangdong Province, the price is determined with reference to the mean price provided by the Yangtze River Non-ferrous Metals Spot Market, and for products sold in Guangdong Province, the price is based on the mean price provided by Nanchu Non-ferrous Metals Spot Market in Guangdong Province, while a premium or discount may be applied from time to time.

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Alumina purchase cost and electricity cost

The following table sets forth the average alumina purchase cost and average energy cost for a ton of aluminum products sold by us for the periods indicated:

	Nine months ended September 30,	
	2009	2010
	(RMB)	(RMB)
Alumina ¹	3,403	3,042
Electricity ²	5,561	3,178

Notes:

1. The unit cost of alumina equals to the total purchase cost of alumina for the period indicated divided by the total volume of aluminum products sold by us for such period.
2. The unit cost of electricity equals to the total purchase cost of electricity from external supplier and the cost of electricity generated internally by our thermal power station, which are allocated to the cost of our aluminum products sold, for the period indicated divided by the total volume of aluminum products sold by us for such period.

Our purchase cost of alumina for a ton of aluminum products sold decreased for the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009 primarily due to the decrease in our average alumina purchase price. The spot market price for alumina increased for the nine months ended September 30, 2010, according to Antaike. In this regard, it should be noted that despite the increase in the spot market price for alumina, our purchase cost of alumina for a ton of aluminum products decreased.

According to Antaike, while bauxite prices, the key raw material of alumina, rebounded slightly for the nine months ended September 30, 2010, such prices still remained relatively low. As a result and based on our negotiation with Gaoxin Aluminum & Power taking into account our large purchase volume of alumina, term of commitment, the payment of the RMB400 million deposit as well as savings in Gaoxin Aluminum & Power's costs and expenses under such arrangement, our purchase price of alumina provided by Gaoxin Aluminum & Power decreased to RMB1,590 per ton for the same period despite the fact that the spot market price for alumina increased during the same period.

Our unit cost of electricity for a ton of aluminum products sold decreased significantly for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 primarily due to (i) a decrease in the price of electricity purchased from Gaoxin Aluminum & Power as the purchase price for the nine months ended September 30, 2009 also included the amortized construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power's generators, which was fully amortized by the end of 2009; (ii) a decrease in the unit cost of the electricity generated by our thermal power station primarily attributable to an increase in its utilization rate; and (iii) an increase in the proportion of electricity generated by our thermal power station, the unit cost of which was significantly lower than the unit cost of electricity purchased from Gaoxin Aluminum & Power.

Significant increase in net profit

As a result of (i) a significant increase in revenue mainly driven by the increase in our sales volume and average selling price underpinned by the recovery of the PRC economy, which boosted market demand; (ii) a decrease in unit cost of sales of aluminum products as a result of significant decreases in the electricity cost per kWh and the unit cost of alumina, our net profit from our continuing operations increased to approximately RMB2,965.4 million for the nine months ended September 30, 2010 from approximately RMB212.0 million for the nine months ended September 30, 2009. If there is any change in the factors mentioned above, our net profit may not grow at such rate or at all. See the risk factors headed "Our business and results of operations are dependent on the market price of aluminum products,

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which is driven by factors beyond our control.” and “We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”

Discontinued Operations

In addition, we had discontinued operations during the Track Record Period. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its alumina business in the name of Aluminum & Power for the period from May 26, 2006 to December 31, 2009. In addition, we operated a dyeing business under Shandong Hongqiao and a caustic soda manufacturing business under Marine Chemical. To focus on our aluminum production business, we disposed of the dyeing business and the caustic soda manufacturing business in early 2010. The profit from these discontinued operations was approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, and the net loss was approximately RMB9.4 million for 2009. Such decrease in profit during the Track Record Period and the net loss in 2009 was primarily due to the decrease in management fee rates relating to the alumina agency business from 2007 to 2009, and the fact that no such management fee was paid for the nine months ended September 30, 2010 as a result of the expiration of the Agency Agreement.

ALUMINA PRODUCTION'S ENVIRONMENTAL IMPACTS

The production process of alumina creates solid waste called “red mud”. The production of one ton of alumina typically produces approximately 0.8 to 1.5 tons of red mud, and the ratio is dependent on the type of bauxite used in the refining process. Red mud is the solid fraction left over from the initial dissolution of bauxite in caustic soda, which gives red mud a high alkaline content. Red mud is a mixture of solid and oxide-bearing impurities, including oxidized iron, silica, unleached residual aluminum and titanium oxide. Long-term over-exposure to these chemical ingredients contained in the red mud may have harmful impact on human health. For example, over-exposure to alkali may cause acid-alkaline imbalance in the human body, and over-exposure to fluoride compounds may result in osteoporosis or bone deformation. Red mud is usually stored in holding ponds or yards. Based on existing technology in China, it is technically difficult to decompose red mud. If the red mud is not processed properly, it will also pollute soil and water. Our Directors confirm that no red mud or other similar pollutant is discharged during our Group's aluminum production process.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that, although there are no national or local environmental protection standards governing the level of red mud created in the production process of alumina, there are certain regulations which govern the manner of storage and disposal of red mud and the measures to prevent pollution caused by red mud, including Regulation on the Prevention of Mine Tailings Pollution (《防治尾礦污染環境管理規定》) promulgated by the State Administration of Environmental Protection, which mainly provides that (i) enterprises which create mine tailings should formulate prevention plans for mine tailings pollution, and adopt effective measures to prevent pollution caused by mine tailings; (ii) enterprises should build mine tailings processing or storage facilities, and mine tailings should be discharged into such mine tailings facilities; and (iii) effective measures on leakage prevention should be adopted for the mine tailings facilities which store dangerous mine tailings.

Environmental Protection of Chuangye Group's Alumina Production Business from 2007 to 2009

Chuangye Group was our exclusive alumina supplier for 2007, 2008 and 2009. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, which expired on December 31, 2009. Pursuant to this agreement, Chuangye Group operated its alumina business in the name of Aluminum & Power. Aluminum & Power was responsible for the sales of alumina, procurement

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of raw materials, incurrence of operating expenses, collection of proceeds from settlement of trade receivables and payment of the liabilities in connection with the procurement of raw materials and operating expenses in Aluminum & Power's name for and on behalf of Chuangye Group and executed all of the legal documents pertinent to the alumina production business. Chuangye Group held the titles and ownership of the assets pertinent to the alumina production business. At the time of the Agency Agreement, Aluminum & Power was a subsidiary of Chuangye Group. See "Business – Discontinued Operations – Alumina Agency Business."

Chuangye Group obtained environmental impact assessment approvals for construction of the alumina production lines on November 8, 2006 and September 17, 2008, and completion inspection approvals on February 2, 2008 and September 1, 2009 from the Ministry of Environmental Protection of the PRC. According to the environmental monitoring reports issued by the Environmental Inspection Station of Zouping County dated January 22, 2008, January 19, 2009 and January 11, 2010, the Environmental Inspection Station of Zouping County conducted inspections on January 12, 2007, July 17, 2007, January 5, 2008, July 14, 2008, January 6, 2009 and July 7, 2009, and the pollution of the air, soil and water in vicinity of the alumina production facilities of Chuangye Group was within the level prescribed by national standards.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the Agency Agreement, we would not be liable for the pollution caused by red mud in the event that there is any, and according to the confirmation letter issued by the Zouping County Environmental Protection Bureau dated November 15, 2010 and the confirmation letter issued by the Binzhou City Environmental Protection Bureau dated December 2, 2010:

- (i) our Group and Chuangye Group had not been involved in any pollution caused by the alumina production of Chuangye Group in violation of the environmental protection laws and regulations during the term of the Agency Agreement; and
- (ii) there has been no penalty imposed in relation to environmental laws and regulations, or dispute between Chuangye Group and our Group and the Zouping County Environmental Protection Bureau.

Furthermore, our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the confirmation letter issued by the Environmental Protection Bureau of Shandong Province dated December 27, 2010 regarding the compliance with environmental laws and regulations of the operation of the alumina production facilities in question, in particular the storage and treatment of red mud:

- (i) Chuangye Group had taken effective measures in compliance with the relevant environmental laws and regulations to prevent any pollution during the period when it operated the alumina production facilities (including the treatment and use of red mud);
- (ii) the alumina production of Chuangye Group had never caused any environmental issue, Chuangye Group had never been punished for breach of any of the relevant environmental protection laws, regulations or rules by any environmental protection authority in respect of their alumina production and there is no circumstance which would lead to the imposition of any such punishment; and
- (iii) the construction and operation of the alumina production facilities of Chuangye Group have completed the requisite procedures and obtained the relevant approvals in accordance with the PRC environmental laws and regulations and are in compliance with the PRC environmental laws and regulations both historically and as at the date of the confirmation.

In addition, our PRC legal advisors, Zong Heng Law Firm, have further advised that the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau and the Environmental Protection Bureau of Shandong Province are the competent governmental authorities to issue such confirmation letters. However, there is no assurance that the confirmation of the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the

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Environmental Protection Bureau of Shandong Province will not be challenged by higher authorities supervising and guiding the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province under PRC laws and regulations.

Environmental Protection of Gaoxin Aluminum & Power's Alumina Production Business from 2010 onwards

We entered into an alumina supply agreement with Gaoxin Aluminum & Power, an Independent Third Party, in December 2009 after Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. Pursuant to the alumina supply agreement, Gaoxin Aluminum & Power agreed to provide us with price discounts, which will be determined through negotiation. Gaoxin Aluminum & Power became our largest supplier and sole alumina supplier in 2010.

As advised by our PRC legal advisors, Zong Heng Law Firm, based on the approvals issued by the Ministry of Environmental Protection in respect of the alumina production projects on November 8, 2006, February 2, 2008, September 17, 2008 and September 1, 2009, the confirmation letter issued by the Zouping County Environmental Protection Bureau dated November 29, 2010 and the confirmation letter issued by the Binzhou City Environmental Protection Bureau dated December 2, 2010:

- (i) effective measures have been taken to prevent any pollution during the alumina production process, including the treatment of red mud; and
- (ii) the storage and disposal of red mud created from the alumina business of Gaoxin Aluminum & Power are in compliance with the relevant environmental laws and regulations.

Furthermore, our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the confirmation letter issued by the Environmental Protection Bureau of Shandong Province dated December 27, 2010 regarding the compliance with environmental laws and regulations of the operation of the alumina production facilities in question, in particular the storage and treatment of red mud:

- (i) Gaoxin Aluminum & Power has taken effective measures in compliance with the relevant environmental laws and regulations to prevent any pollution during the period when it operates the alumina production facilities (including the treatment and use of red mud);
- (ii) the alumina production activities of Gaoxin Aluminum & Power has never caused any environmental issue, Gaoxin Aluminum & Power has never been punished for breach of any of the relevant environmental protection laws, regulations or rules by any environmental protection authority in respect of their alumina production and there is no circumstance which would lead to the imposition of any such punishment; and
- (iii) the construction and operation of the alumina production facilities transferred from Chuangye Group to Gaoxin Aluminum & Power have completed the requisite procedures and obtained the relevant approvals in accordance with the PRC environmental laws and regulations and are in compliance with the PRC environmental laws and regulations both historically and as at the date of the confirmation.

In addition, our PRC legal advisors, Zong Heng Law Firm, have further advised that the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau and the Environmental Protection Bureau of Shandong Province are the competent governmental authorities to issue such confirmation letters. However, there is no assurance that the confirmation of the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province will not be challenged by higher authorities supervising and guiding the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province under PRC laws and regulations.

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In addition, any failure by Gaoxin Aluminum & Power, our sole alumina supplier, to control the use of, or to adequately restrict the discharge of, hazardous substances or maintain workplace safety, especially the storage and discharge of red mud, could subject Gaoxin Aluminum & Power to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of Gaoxin Aluminum & Power's alumina production activities. As a result, our business, financial condition and results of operations will be materially and substantially affected. See "Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected." In addition, if there is any environmental protection issue with Gaoxin Aluminum & Power, as its major customer of alumina products, our reputation may be damaged.

Environmental Protection Measures

Pursuant to the completion inspection approvals dated February 2, 2008 and September 1, 2009 issued by the Ministry of Environmental Protection, Chuangye Group had implemented proper measures to prevent pollution arising out of the alumina production process. For example, the alumina storage facilities had proper seepage and flood control measures and a number of underground-water observation wells. The red mud waste was dehydrated and filtered into solid waste before it was discharged to red mud storage facilities, which largely reduced the risk of environmental pollution. In addition, there were a 400-meter prevention zone around the alumina production facilities and a 500-meter prevention zone around the red mud storage facilities, and the original residents within these prevention zones were relocated before the commencement of the alumina production. Furthermore, such approvals confirmed that proper environmental protection policies and measures and emergency plans had been implemented. Such environmental protection facilities and systems were transferred together with the alumina production facilities to Gaoxin Aluminum & Power by Chuangye Group.

The Environmental Inspection Station of Zouping County has also conducted environmental inspections on the production activities of Gaoxin Aluminum & Power. The Environmental Inspection Station of Zouping County is not a governmental authority. However, according to the relevant PRC laws and regulations, as advised by our PRC legal advisors, Zong Heng Law Firm, environmental inspection stations in the PRC are public institutions established and funded by the relevant environmental protection authorities, and are under their direct supervision, and are vested with the authority to monitor and inspect environmental damages and pollution. As advised by our PRC legal advisors, Zong Heng Law Firm, the Environmental Inspection Station of Zouping County is the competent entity with due authority to conduct such environment inspections.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors to our success to date and will help us continue to increase our market share and capture the anticipated future growth in the aluminum market:

- Established market position in the Chinese aluminum industry in terms of scale and technology with a track record of operational excellence
- Well-positioned to capture the growth potential of the aluminum market in China
- Competitive cost structure and secure supply of electricity
- Strategic location of our production facilities
- Focus on molten aluminum alloy production and sales
- Experienced management team with significant industry expertise

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OUR STRATEGIES

We seek to further strengthen our established market position in the aluminum industry in China. We aim to achieve sustainable growth of our businesses and remain competitive. To achieve this, we intend to focus on the following strategies:

- Expand production capacity to increase our market share
- Expand into downstream markets for high value-added aluminum fabrication products
- Enhance product research and development capabilities
- Further improve cost structure and achieve additional cost reductions
- Increase our marketing and sales efforts

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the consolidated financial information for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010 and as of December 31, 2007, 2008 and 2009 and September 30, 2010 from our audited consolidated financial statements set forth in the Accountants' Report in Appendix I to this prospectus. The summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this prospectus, including the related notes.

Our consolidated financial information was prepared in accordance with IFRS.

SUMMARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	(Unaudited)				
	(RMB in thousand except for per share data)				
CONTINUING OPERATIONS					
Revenue	4,508,281	8,772,162	8,668,428	6,182,196	10,546,533
Cost of sales	(3,117,879)	(8,238,706)	(7,769,098)	(5,831,209)	(6,503,743)
Gross profit	1,390,402	533,456	899,330	350,987	4,042,790
Other income and gain and loss	75,306	178,649	97,216	94,763	153,059
Distribution and selling expenses	(10,911)	(52,849)	(40,961)	(31,788)	(15,994)
Administrative expenses	(42,070)	(83,734)	(92,335)	(62,470)	(75,552)
Finance costs	(55,970)	(193,018)	(89,243)	(65,388)	(130,797)
Other expenses	–	–	–	–	(19,693)
Profit before taxation	1,356,757	382,504	774,007	286,104	3,953,813
Income tax credit	(452,855)	(98,921)	(196,924)	(74,134)	(988,378)
Profit for the year/period from continuing operations	903,902	283,583	577,083	211,970	2,965,435
DISCONTINUED OPERATIONS^{Note}					
Profit (loss) for the year/period from discontinued operations	425,398	145,291	(9,441)	(28,682)	31,515
	<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Profit and total comprehensive income attributable to					
Owners of the Company	1,302,714	420,297	556,289	179,622	2,972,457
Minority interests	26,586	8,577	11,353	3,666	24,493
	<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Earnings per share, in RMB					
From continuing and discontinued operations					
Basic	<u>0.26</u>	<u>0.08</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From continuing operations					
Basic	<u>0.18</u>	<u>0.06</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From discontinued operations					
Basic	<u>0.08</u>	<u>0.02</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note: The discontinued operations refer to (i) the disposal of dyeing business by Shandong Hongqiao with effect from January 4, 2010; (ii) the disposal of the caustic soda manufacturing business as a result of the disposal of Marine Chemical by Shandong Hongqiao with effect from January 1, 2010; and (iii) the cessation of the alumina agency business by Aluminum & Power with effect from December 31, 2009, the details of which are set out in Note 12 “discontinued operations and non-current assets held for sale” of notes to the financial information in Appendix I to this prospectus.

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STATEMENTS OF FINANCIAL POSITION

	The Group				The Company
	At December 31,			At September 30,	At September 30,
	2007	2008	2009	2010	2010
	(RMB in thousand)				
NON-CURRENT ASSETS					
Property, plant and equipment	4,537,656	6,122,810	5,591,784	7,743,761	–
Prepaid lease payments					
– non-current portion	11,027	10,798	–	83,744	–
Intangible assets	247,256	123,628	–	–	–
Investments in subsidiaries	–	–	–	–	3,195,812
Amount due from a subsidiary	–	–	–	–	64,325
Deferred tax assets	2,825	30,078	12,124	35,203	–
Deposits paid for acquisition of property, plant and equipment	605,709	532,096	312,889	294,302	–
	5,404,473	6,819,410	5,916,797	8,157,010	3,260,137
CURRENT ASSETS					
Inventories	759,832	743,988	548,360	864,309	–
Trade receivables	83,910	34,555	44,416	6,507	–
Bills receivable	1,150,562	1,645,045	763,370	907,534	–
Prepayments and other receivables	27,622	122,826	15,377	739,005	–
Amounts due from related parties	230,011	160,067	153,756	–	–
Prepaid lease payments					
– current portion	229	229	–	1,813	–
Tax recoverable	–	74,726	97,790	–	–
Restricted bank deposits	193,311	195,615	760,646	–	–
Bank balances and cash	128,335	117,949	443,133	1,279,320	1,081
	2,573,812	3,095,000	2,826,848	3,798,488	1,081
Financial assets contracted for Alumina					
Production Business	1,377,480	1,237,382	1,029,762	–	–
Assets classified as held for sale	–	–	1,613,854	–	–
	3,951,292	4,332,382	5,470,464	3,798,488	1,081
CURRENT LIABILITIES					
Trade payables	714,623	992,734	394,346	371,205	–
Bills payable	20,000	100,000	310,000	–	–
Other payables	643,163	957,713	848,059	626,583	–
Amounts due to related parties	2,857,034	3,471,942	3,556,479	–	–
Amount due to a subsidiary	–	–	–	–	591
Income tax payable	36,609	–	–	545,619	–
Bank borrowings					
– due within one year	567,155	869,970	929,173	300,000	–
	4,838,584	6,392,359	6,038,057	1,843,407	591
Financial liabilities contracted for Alumina					
Production Business	2,085,006	1,488,847	1,105,843	–	–
Liabilities associated with assets classified as held for sale	–	–	980,551	–	–
	6,923,590	7,881,206	8,124,451	1,843,407	591

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	The Group			The Company	
	At December 31,			At	At
	2007	2008	2009	September 30, 2010	September 30, 2010
	(RMB in thousand)				
NET CURRENT (LIABILITIES) ASSETS . . .	(2,972,298)	(3,548,824)	(2,653,987)	1,955,081	490
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,432,175</u>	<u>3,270,586</u>	<u>3,262,810</u>	<u>10,112,091</u>	<u>3,260,627</u>
CAPITAL AND RESERVES					
Paid-in capital/share capital	114,398	114,398	114,398	69	69
Reserves	<u>1,993,557</u>	<u>2,413,854</u>	<u>2,970,143</u>	<u>6,079,191</u>	<u>3,188,727</u>
Equity attributable to owners of the Company	2,107,955	2,528,252	3,084,541	6,079,260	3,188,796
Non-controlling interests	<u>43,020</u>	<u>51,597</u>	<u>62,950</u>	<u>-</u>	<u>-</u>
TOTAL EQUITY	<u>2,150,975</u>	<u>2,579,849</u>	<u>3,147,491</u>	<u>6,079,260</u>	<u>3,188,796</u>
NON-CURRENT LIABILITIES					
Other borrowings	-	-	-	71,831	71,831
Deferred income	11,200	11,200	-	-	-
Bank borrowings - due after one year	<u>270,000</u>	<u>679,537</u>	<u>115,319</u>	<u>3,961,000</u>	<u>-</u>
	<u>281,200</u>	<u>690,737</u>	<u>115,319</u>	<u>4,032,831</u>	<u>71,831</u>
	<u>2,432,175</u>	<u>3,270,586</u>	<u>3,262,810</u>	<u>10,112,091</u>	<u>3,260,627</u>

NET CURRENT LIABILITIES

We had net current liabilities of approximately RMB2,972.3 million, RMB3,548.8 million and RMB2,654.0 million as of December 31, 2007, 2008 and 2009. Our Group's net current liabilities position as at December 31, 2007, 2008 and 2009 was primarily because we took advantage of the financing from amounts due to related parties, the suppliers' credit period to partly finance our operation and utilising short-term bank borrowings for expanding our business. In addition, the amount due to Profit Long Investment of approximately RMB3,193.9 million was capitalized in April 2010 as part of the Reorganization. As of September 30, 2010, we had repaid all amounts due to related parties, which amounted to approximately RMB3,556.5 million as of December 31, 2009. As of September 30, 2010, we did not have any undrawn banking facilities. As of September 30, 2010 we had net current assets of approximately RMB1,955.1 million. Our Directors believe that, with the new mid- to long-term loans, the cash generated from our operating activities and the net proceeds we expect to receive from the Global Offering, we will be able to further improve our liquidity position in the future.

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PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2010

Estimated consolidated profit attributable to the equity holders of the Company ⁽¹⁾⁽³⁾	Not less than RMB4,100 million (approximately HK\$4,860 million)
Unaudited pro forma estimated earnings per share ⁽²⁾⁽³⁾	Not less than RMB0.70 (approximately HK\$0.82)

Notes:

- (1) The bases and assumptions on which the profit estimate has been prepared are summarized in Appendix III to this prospectus. The Directors have prepared the estimated consolidated profit attributable to equity holders of our Company for the year ended December 31, 2010 based on the audited consolidated results for the nine months ended September 30, 2010, our Group's unaudited consolidated results for the three months ended December 31, 2010.
- (2) The calculation of the unaudited pro forma estimated earnings per share is based on the estimated consolidated profit attributable to equity holders of our Company for the year ended December 31, 2010, assuming that a total of 5,885,000,000 shares had been in issue during the entire year. The calculation of the unaudited pro forma estimated earnings per share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The estimated consolidated profit attributable to equity holders of our Company and the unaudited pro forma estimated earnings per share are converted into HK\$ at the rate of HK\$1.00 = RMB0.8435 prevailing on March 8, 2011.

OFFER STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$7.20 per Share	Based on an Offer Price of HK\$8.30 per Share
Market capitalization ⁽¹⁾	HK\$42.37 billion	HK\$48.84 billion
Prospective price/earnings multiple on a pro forma basis ⁽²⁾	8.72 times	10.05 times
Pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$2.26	HK\$2.43

Notes:

- (1) The calculation of market capitalization is based on 5,885,000,000 Shares expected to be in issue following the Global Offering.
- (2) The calculation of the estimated price/earnings multiple on a pro forma and fully diluted basis is based on the estimated earnings per Share for the year ended December 31, 2010 on a pro forma and fully diluted basis at the respective Offer Prices of HK\$7.20 and HK\$8.30 per Share.
- (3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 5,885,000,000 Shares are in issue following the Global Offering.

DIVIDEND POLICY

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from generally accepted

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accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their profit for the year as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or pursuant to any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future. Our Directors confirm that we do not intend to distribute the undistributed profits in 2008 and 2009 of the relevant PRC subsidiaries in the foreseeable future.

Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

USE OF PROCEEDS

The net proceeds of the Global Offering (after deducting the relevant expenses) are estimated to be approximately HK\$6,605.4 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$7.75 per Share, being the mid-point of the stated range of the Offer Price between HK\$7.20 and HK\$8.30 per Share. If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to our Company from the offering of these additional Shares will be approximately HK\$1,022.6 million, after deducting the relevant expenses, assuming an Offer Price of HK\$7.75 per Share, being the mid-point of the Offer Price range stated in this prospectus. We intend to apply the net proceeds from the Global Offering in the following manner:

- approximately 88%, or HK\$5,812.8 million, for the expansion of our production capacity. The Binzhou Manufacturing Base Phase I is expected to have an aggregate annual production capacity of approximately 310,000 tons of aluminum alloy products. The total budgeted capital expenditures for the Binzhou Manufacturing Base Phase I are approximately RMB4.2 billion. We intend to use approximately HK\$1.9 billion (RMB1.6 billion) for the construction of our Binzhou Manufacturing Base Phase I. We started the trial production of the Binzhou Manufacturing Base Phase I in late September 2010 upon partial completion of this project and expect to fully complete the construction of this project by the end of March 2011, at which time our annual production capacity will increase to approximately 1,226,000 tons. We plan to further expand our aggregate annual production capacity by approximately 300,000 tons of aluminum alloy products through the Binzhou Manufacturing Base Phase II. The total budgeted capital expenditures for the Binzhou Manufacturing Base Phase II are approximately RMB3.9 billion. We intend to use the remaining unused proceeds, which are expected to amount to approximately HK\$3.9 billion (RMB3.3 billion), for the construction of our Binzhou Manufacturing Base Phase II. We started the construction of our Binzhou Manufacturing Base Phase II in December 2010, and we expect to start production at our Binzhou Manufacturing Base Phase II in June 2011 upon the partial completion of this project and fully complete the construction of this project in July 2011. Our PRC legal advisors, Zong Heng Law Firm, have advised us that we have obtained the requisite governmental approvals and completed the requisite governmental filings for the construction of the Binzhou Manufacturing Base I and the Binzhou Manufacturing Base II. We believe that these projects will help us expand our production capacity and help us optimize our production process and enhance our market position;
- approximately 2%, or HK\$132.1 million, for research and development activities and sales and marketing. We plan to apply approximately 1.5% of the net proceeds, which are expected to amount to approximately HK\$99.1 million, to our research and development activities. We intend to use approximately HK\$23.7 million (RMB20.0 million) to develop our automatic and integrated work safety monitoring system, and the remaining unused proceeds, which are expected to amount to approximately HK\$75.4 million, for the development of our research and development center, including recruitment of more research and development personnel, to develop new products, such as high value-added aluminum fabrication products, to procure advanced equipment for our laboratory to improve our production technology, enhance product quality and reduce production

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cost. Preparation for the center commenced in April 2010 and it is expected to be put into use in May 2011. We had invested approximately RMB43.1 million as of September 30, 2010. We plan to purchase equipment for the center from suitable domestic and international suppliers. In addition, we plan to apply approximately 0.5% of the net proceeds, which are expected to amount to approximately HK\$33.0 million, to expand our sales and distribution network and develop the market for our new products, including establishment of sales offices, provision of training programs to our sales and marketing personnel, participation in conferences and trade fairs and exhibitions, advertisement of our products in China and overseas, development of our website for sales and marketing, improvement of after-sale services and remuneration for our sales and marketing personnel, to further strengthen our market position; and

- approximately 10%, or HK\$660.5 million, for working capital and general corporate purposes. We intend to use such working capital primarily for the procurement of raw materials and electricity within three months after the Listing.

To the extent our net proceeds are less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. To the extent our net proceeds are more than expected, including any additional net proceeds that we would receive from any exercise of the Over-allotment Option at any price within the stated Offer Price range, in full or in part, such amount will be applied to the expansion of our production capacity as described above, and any remaining unused amount may be applied to working capital and potential acquisitions. We have not identified any acquisition target as of the Latest Practicable Date.

To the extent that our net proceeds are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term interest bearing deposits.

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the Global Offering. For more details, see “Risk Factors”.

Risks Relating to Our Business

- Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control.
- We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.
- If there is any material adverse change in Gaoxin Aluminum & Power’s business, financial condition and results of operations, our business, financial condition and results of operations would be materially and adversely affected.
- The global financial crisis which commenced in 2008 has had a negative impact on the global economy, including the aluminum industry. If the economic downturn continues, it may materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.
- It may be difficult for investors to evaluate our business and prospects due to our limited operating history and changes in our cost structure.
- Any disruption in our manufacturing facilities could materially and adversely affect our business, financial condition and results of operations.

SUMMARY

- If the end-user markets of aluminum products contract or do not grow at the pace we expect, our business, financial condition and results of operations may be materially and adversely affected.
- If we fail to obtain sufficient amounts of raw materials that meet our quality standards and/or at commercially acceptable prices, our business, financial condition and results of operations would be materially and adversely affected.
- Any failure by us and/or our sole alumina supplier, Gaoxin Aluminum & Power, to comply with any present or future environmental or occupational safety laws and regulations may require us to spend additional funds and/or interrupt our business operations and may materially and adversely affect our business, financial condition and results of operations.
- If any of our large customers reduces its purchases of, or fails to pay for, our products, our business, financial condition and results of operations will be materially and adversely affected.
- We derive a significant portion of our revenue of aluminum products from Zouping County, Shandong Province through the sales of molten aluminum alloy.
- If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our operating expenses could increase.
- We rely on one single transport company to deliver our molten aluminum alloy products to our customers and it may be difficult to find alternative carriers.
- If our electricity costs increase significantly or if we are unable to obtain sufficient electricity supply, our business, financial condition and results of operations would be materially and adversely affected.
- We may require additional capital in the future, which may not be available to us on commercially acceptable terms in time, or at all.
- We had net current liabilities position as of December 31, 2007, 2008 and 2009.
- During the Track Record Period, we financed our operations in part through significant amounts due to related parties that were interest free. We may face increasing finance costs in the future after the Listing. If we fail to manage our finance costs effectively, our business, financial condition and results of operations would be materially and adversely affected.
- We may not be able to manage our expansion effectively or complete our expansion projects as expected.
- We face intense competition in China.
- Our production capacity may not correspond precisely to our production demands.
- Our future success depends in part on our ability to retain our executive Directors and senior management.
- Our results of operations may fluctuate from period to period.
- The interests of Mr. Zhang, our chairman and Controlling Shareholder, may differ from those of our Group and our other Shareholders, and Mr. Zhang has the ability to cause us to make decisions that may not be in the best interests of our other Shareholders.
- We may not be able to adequately protect our intellectual proprietary rights.
- Product liability claims against us could result in significant costs or negatively affect our reputation and could materially and adversely affect our business, financial condition and results of operations.
- We may be unable to pay any dividend on our Shares.
- We may not have sufficient insurance coverage for the risks associated with our business operations.

SUMMARY

Risks Relating to Our Industry

- Future changes in laws, regulations or enforcement policies in China could adversely affect our business.
- Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs.

Risks Relating to Doing Business in the PRC

- Changes in China's economic, political and social conditions could adversely affect our business, financial condition and results of operations.
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us.
- Governmental control of currency conversion may affect the value of your investment.
- Recent changes to the PRC tax laws have decreased the tax rate applicable to our business; however, any future changes to the PRC tax laws could adversely affect our business, financial condition and results of operations.
- We face foreign exchange and conversion risks, and fluctuations in the value of the Renminbi may have a material adverse effect on your investment.
- We face risks related to health epidemics and other outbreaks.

Risks Relating to the Global Offering

- There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile.
- Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- Future sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.
- Certain facts and other statistics with respect to China, the PRC economy and the global and PRC aluminum industries in this prospectus are derived from various official government sources and may not be reliable.
- Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports or other publicly available information without carefully considering the risks and other information contained in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Agency Agreement”	The agency agreement entered into by and between Chuangye Group and Aluminum & Power dated May 25, 2006 with respect to Chuangye Group’s alumina production business
“Aluminum & Power”	山東魏橋鋁電有限公司 (Shandong Weiqiao Aluminum and Power Co., Ltd.), a limited liability company incorporated under the laws of the PRC on December 25, 2002 and is an indirect wholly-owned subsidiary of our Company
“Aluminum Technology”	濱州魏橋鋁業科技有限公司 (Binzhou Weiqiao Aluminum Technology Co., Ltd.), a limited liability company incorporated under the laws of the PRC on December 25, 2002, a subsidiary of Chuangye Group
“Antaike”	北京安泰科信息開發有限公司 (Beijing Antaike Information Development Co., Ltd.), an independent specialist market research company
“Application Form(s)”	WHITE application form(s), YELLOW application form(s), GREEN application form(s) or, where the context so requires, any of such forms as used in the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, being conditionally adopted on March 8, 2011 and taking effect upon Listing, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Binzhou Yinhe”	濱州銀河國際物流有限公司 (Binzhou Yinhe International Logistics Co., Ltd.), a limited liability company incorporated under the laws of the PRC and an Independent Third Party
“Board of Directors” or “Board”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	acronym for compound annual growth rate

DEFINITIONS

“Capitalization Issue”	the issue of 4,999,000,000 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011” under the section headed “Further Information about our Company” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, for the purpose of this prospectus, excluding Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong
“Chuangye Group”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established under the laws of the PRC on April 14, 1998, the name of which was changed in 2003 from Shandong Weiqiao Textile Group Company Limited (山東魏橋紡織集團有限公司), a limited liability company converted from its predecessor, Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠). As of the Latest Practicable Date, Mr. Zhang directly and indirectly held approximately 33.72% equity interests in Chuangye Group
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	China Hongqiao Group Limited, a company incorporated on February 9, 2010 as an exempted company with limited liability under the laws of the Cayman Islands
“Connected Person”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang and Hongqiao Holdings who will control the exercise of approximately 84.96% voting rights in the general meeting of our Company immediately after the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised)
“Cornerstone Investors”	Chow Tai Fook Nominee Limited, Chosen Elite Limited, Mr. Joseph Lau, Luen-Hung and High Action Limited
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Deed of Indemnity”	a deed of indemnity dated January 16, 2011 entered into between our Controlling Shareholders and our Company for itself and as trustee for its subsidiaries, under which our Controlling Shareholders have given certain indemnities in favor of our Group containing, among others, the indemnities referred to in the paragraph headed “Other Information – Tax and other indemnity” in Appendix VI to this prospectus
“Director(s)”	the director(s) of our Company
“Gaoxin Aluminum & Power”	鄒平高新鋁電有限公司 (Zouping Gaoxin Aluminum & Power Co., Ltd.), formerly known as 鄒平高新熱電有限公司 (Zouping Gaoxin Power Co., Ltd.), a limited liability company incorporated under the laws of the PRC on January 24, 2007, which is wholly-owned by Shandong Yunda Investment Management Company Limited. The shareholders of Shandong Yunda Investment Management Company are the Labor Union Committee of Shandong Zouping Economic Development Zone, Shandong Zouping Kaida Real Estate Company Limited and Zouping Economic Development Zone Property Management Company, which hold approximately 74.6%, 10.4% and 15.0% respectively of the equity interest in Shandong Yunda Investment Management Company Limited. Gaoxin Aluminum & Power is an Independent Third Party. Our Directors believe that Gaoxin Aluminum & Power is an independent third party to Chuangye Group
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider
“Group,” “our Group,” “we” or “us”	our Company and the subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of the present subsidiaries, the present subsidiaries of our Company

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“HK\$” or “Hong Kong dollar(s)”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 88,500,000 Shares being offered by us for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Underwriters – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering entered into between our Company, the Controlling Shareholders, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters dated March 11, 2011
“Hongqiao Holdings”	China Hongqiao Holdings Limited (中國宏橋控股有限公司), a company incorporated in the BVI with limited liability on February 5, 2010 and one of the Controlling Shareholders of our Company
“Hongqiao Hong Kong”	Hongqiao Investment (Hong Kong) Limited (宏橋投資(香港)有限公司), a company incorporated in Hong Kong with limited liability on February 18, 2010 and an indirect wholly-owned subsidiary of our Company
“Hongqiao Investment”	China Hongqiao Investment Limited (中國宏橋投資有限公司), a company incorporated in the BVI with limited liability on February 5, 2010 and a direct wholly-owned subsidiary of our Company
“Huibin Dyeing”	山東慧濱棉紡漂染有限公司 (Shandong Huibin Dyeing Co., Ltd.), a limited liability company established under the laws of the PRC on August 3, 2001 in the PRC

DEFINITIONS

“IFRS”	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
“Independent Third Party(ies)”	party(ies) not connected with any of the Directors, chief executive, Substantial Shareholders of our Company or any of its subsidiaries or any of their respective associates
“International Offer Shares”	the 796,500,000 Shares initially being offered by us for subscription and purchase at the Offer Price under the International Offering, subject to adjustment and the Over-allotment Option, as more fully described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional offering by the International Underwriters of the International Offer Shares with institutional and professional investors and other investors, as described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the several underwriters of the International Offering, led by the Sole Global Coordinator and expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around March 17, 2011 by our Company, the Controlling Shareholders and the Joint Bookrunners of the International Offering on behalf of the International Underwriters in respect of the International Offering, as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses – International Offering” in this prospectus
“Issuing Mandate”	the general unconditional mandate given to the Directors by the Shareholders relating to the issue of Shares, further details of which are set out in the section headed “Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011” in Appendix VI to this prospectus
“Joint Bookrunners”	in respect of the Hong Kong Public Offering, J.P. Morgan Securities (Asia Pacific) Limited, BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Capital Asia Limited, and in respect of the International Offering, J.P. Morgan Securities Ltd., BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Bank PLC

DEFINITIONS

“Latest Practicable Date”	March 8, 2011, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	listing of our Shares on the Hong Kong Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be March 24, 2011, on which dealings in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the Main Board of the Hong Kong Stock Exchange
“Marine Chemical”	濱州海洋化工有限公司 (Binzhou Marine Chemical Co., Ltd.), a limited liability company, which was established in the PRC on March 2, 2006 and disposed of by our Group pursuant to an agreement dated December 28, 2009 among Shandong Honqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, being conditionally adopted on March 8, 2011 and taking effect upon Listing, as amended from time to time
“Mr. Zhang”	張士平, Mr. Zhang Shiping, an executive Director of our Company and one of our Controlling Shareholders. Mr. Zhang is the husband of Ms. Zheng, the father of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the father-in-law of Mr. Yang Congsen
“Ms. Zheng”	鄭淑良, Ms. Zheng Shuliang, the wife of Mr. Zhang, the mother of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the mother-in-law of Mr. Yang Congsen
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)
“New EIT Law”	the PRC Enterprise Income Tax Law passed by the National People’s Congress of the PRC on March 16, 2007 and took effect on January 1, 2008, as amended, supplemented and otherwise modified from time to time
“Non-Competition Deed”	a non-competition deed dated January 16, 2011 entered into by our Controlling Shareholders and Chuangye Group in favor of our Company, details of which are disclosed in the section headed “Relationship with the Controlling Shareholders” in this prospectus

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“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee), at which the Offer Shares are to be subscribed pursuant to the Global Offering, to be determined as further described in “Structure of the Global Offering – Pricing and Allocation” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares being offered pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by J.P. Morgan Securities Ltd. under the International Underwriting Agreement pursuant to which we may be required to issue up to an aggregate of 132,750,000 additional Shares, representing 15% of the initial number of Offer Shares, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any
“PBOC Rate(s)”	the exchange rate for foreign exchange transactions set daily by PBOC based on the China inter-bank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress of the PRC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC government” or “State”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Price Determination Date”	the date, expected to be on or around March 18, 2011, but no later than March 22, 2011, on which the Offer Price is fixed for the purpose of the Global Offering
“Profit Long Investment”	保恒俐投資有限公司 (Profit Long Investment Limited), a company incorporated in Hong Kong on September 19, 1996 and wholly owned by Mr. Zhang as of the Latest Practicable Date
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Qualified Institutional Buyers” or “QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“Reorganization”	the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “History and Reorganization” in this prospectus
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shandong Hongqiao”	山東宏橋新型材料有限公司 (Shandong Hongqiao New Material Co., Ltd., previously known as Shandong Weiqiao Dyeing Company Limited (山東位橋染織有限公司)), a limited liability company established in the PRC on July 27, 1994 and an indirect wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Shares
“Sole Global Coordinator”	J.P. Morgan Securities (Asia Pacific) Limited
“Sole Sponsor”	J.P. Morgan Securities (Asia Pacific) Limited
“State Council”	中華人民共和國國務院 (State Council of the PRC)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Hongqiao Holdings and J.P. Morgan Securities Ltd. on or about the Price Determination Date
“subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Repurchases
“Track Record Period”	the three years ended December 31, 2009 and the nine months ended September 30, 2010
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

DEFINITIONS

“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, including the District of Columbia, its territories and possessions
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “US dollar(s)” or “USD”	United States dollars, the lawful currency for the time being of the United States
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except indicated otherwise
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WPIP”	the web proof information pack of the Company posted on the Hong Kong Stock Exchange’s website at www.hkexnews.hk
“Zhengtong”	濱州市政通新型鋁材有限公司 (Binzhou Zhengtong New Aluminum Profiles Co., Ltd.), a limited liability company, which was established in the PRC on May 20, 2008 and is an indirect wholly-owned subsidiary of our Company
“%”	per cent

GLOSSARY

This glossary contains explanations of certain technical terms and abbreviations used in this prospectus that are in connection with our Group and its business. The terms and their assigned meanings may not, however, correspond to standard industry meaning or usage of those terms, as the terms may be.

“alloy”	a composite metal formed by fusing two or more metals and, occasionally, other materials
“alumina (氧化鋁)”	aluminum oxide, the immediate raw material of producing aluminum
“aluminum alloy (鋁合金)”	one type of alloy, the major component of which is aluminum
“aluminum fabrication products (鋁型材產品)”	aluminum products obtained through further processing of primary aluminum for application in end-use market
“anode”	a positive electrode which attracts chemicals carrying negative electricity
“average utilization hours”	for a specified period, the amount of electricity produced in such period (in MWh) divided by the average installed capacity in such period
“electrolytic aluminum (電解鋁)”	pure aluminum produced from alumina through an electrolytic reduction process
“ISO”	International Organization for Standardization
“kA”	kiloamperes, equals to 1,000 amperes, a unit of electric current flow
“kWh”	kilowatt hours, a unit for measuring electrical power, meaning one kilowatt of power for one hour
“MW”	Megawatt
“smelting (熔煉)”	the electrolytic reduction process required to produce molten aluminum from alumina
“sq.m.”	square meter
“ton”	the metric ton, a unit of weight, with one metric ton equal to 1,000 kilograms or 2,204.6 pounds

FORWARD LOOKING STATEMENTS

This prospectus includes certain statements that are, or may be deemed to be, “forward-looking statements”. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to successfully implement our business plan and strategies;
- PRC government’s policies and regulatory framework for the PRC aluminum industry;
- future development and other trends in the global and the PRC aluminum industry;
- cost, fluctuations in the price and availability of materials required for our Group’s production of aluminum products;
- changes to our expansion plans and estimated capital expenditures;
- our operations and business prospects;
- our financial condition and performance;
- the actions and development of our competitors;
- our dividend policy;
- general political and economic conditions, including those related to the PRC;
- exchange rate fluctuations and developing legal system, in each case pertaining to the PRC and the industry and markets in which we operate;
- regulations and restrictions, including tariffs and environmental regulations;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- other factors discussed in sections headed “Risk Factors,” “Business” and “Financial Information”.

Forward-looking statements may and often do differ materially from actual results. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to our Group’s business. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider the risks described below and all other information contained in this prospectus before making an investment decision. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that almost all of our operations are conducted in China and are governed by a legal and regulatory environment that differs in some respects from those that prevail in other countries. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our shares could decline, and you may lose part or all of your investment.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS

Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control.

Our business is sensitive to fluctuations in the prices of aluminum products. Like most aluminum producers in China, we price our aluminum products primarily by reference to spot market prices. See “Business – Sales and Marketing – Sales contract terms.” The average prices of aluminum ingots labelled as A00 released by Yangtze River Non-ferrous Metals Spot Market were approximately RMB16,677 per ton, RMB14,525 per ton, RMB11,941 per ton and RMB13,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, according to Antaika. Fluctuations in the market prices of aluminum products may affect our results of operations. Details of historical price movements of aluminum products are set out in the section headed “Industry Overview” in this prospectus.

The prices of aluminum products have historically been subject to fluctuations in response to market forces, such as global mine production, roasting and smelting production, global and PRC economic conditions and industrial demand. In recent years, there have been significant fluctuations in the prices of aluminum products. These fluctuations have been driven by changes in the end-use of aluminum products, as a result of fluctuations in investment in the construction, electrical, transport and consumer durables sectors. For example, for 2007, 2008, 2009 and the nine months ended September 30, 2010, the average selling price of our aluminum products per ton was approximately RMB16,292, RMB14,379, RMB11,858 and RMB13,430, respectively. The decline in the average selling price in 2008 and 2009 was primarily due to the global financial crisis that started in the second half of 2008, which reduced demand for aluminum products in general. Although the average selling price of our aluminum products rebounded for the nine months ended September 30, 2010 primarily due to the recovery of the PRC economy, any sustained decline in the prices of aluminum products in the future is expected to have a negative impact on our financial condition and results of operations.

In addition, the prices of our raw materials fluctuate from time to time. See “– Risks Relating to Our Business – If we fail to obtain sufficient amounts of raw materials that meet our quality standards and/or at commercially acceptable prices, our business, financial condition and results of operations would be materially and adversely affected.” Even if there is an increase in the market price of our products, it may not be enough to compensate the increase in the prices of raw materials, and as a result, our business, financial condition, results of operations and prospect may be materially and adversely affected. Furthermore, if prices of our raw materials increase while the market prices of our products decrease for any reason, our business, financial condition, results of operations and prospects will be materially and adversely affected.

RISK FACTORS

We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.

Alumina is the principal raw material for the production of our aluminum products. Purchase of alumina accounted for approximately 44.1%, 36.4%, 30.7% and 34.9% of our total cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Historically, we purchased all of our alumina from Chuangye Group until December 31, 2009. In December 2009, Chuangye Group sold its alumina business to Gaoxin Aluminum & Power, which is an Independent Third Party. We entered into an alumina supply agreement with Gaoxin Aluminum & Power in December 2009, which was supplemented on December 27, 2009 and again on January 6, 2010 with a three year term. See “Business – Procurement – Raw materials – Procurement of alumina.” Gaoxin Aluminum & Power has been our sole alumina supplier since January 1, 2010. In addition, we entered into an electricity supply agreement with Gaoxin Aluminum & Power in June 2008, which does not have a definite term and can be terminated by a 90-day prior written notice provided by any party. See “Business – Electricity Supply.” Gaoxin Aluminum & Power started to supply electricity to us in July 2008 and became our sole electricity supplier from January 1, 2010. Gaoxin Aluminum & Power is our largest supplier for the nine months ended September 30, 2010, accounting for approximately 56.7% of our total procurement during such period. We expect that Gaoxin Aluminum & Power will continue to be our sole alumina and electricity supplier in the near future. Our PRC legal advisors, Zong Heng Law Firm, have advised us that the supply of alumina and electricity by Gaoxin Aluminum & Power to our Group complies with applicable PRC laws and regulations.

The future relationship between our Group and Gaoxin Aluminum & Power and the willingness and capability of Gaoxin Aluminum & Power to supply alumina and electricity to us will be critical to our business and operations. We have entered into a memorandum of understanding with Thermal Power Station of Zouping County Electricity Co., Ltd., or Zouping Electricity, a state-owned power grid, to further secure our electricity supply, but the memorandum of understanding is not legally binding and we cannot assure you that Zouping Electricity will fully discharge its commitments under this memorandum of understanding. In addition, the price of electricity supplied by Zouping Electricity will be based on the then on-the-grid price as stipulated by the PRC government, which could be materially higher than the price of the electricity supplied to us by Gaoxin Aluminum & Power. See “Business – Electricity Supply – Electricity suppliers.”

If Gaoxin Aluminum & Power is unwilling or unable to provide us with high quality alumina and electricity in required quantities and at commercially acceptable prices, or if Gaoxin Aluminum & Power is required by relevant PRC regulatory authorities to comply with more stringent procedures and requirements than those currently in place, or if the relevant PRC regulatory authorities are of the view that the approval, construction, environmental or safety compliance of the production of alumina of Gaoxin Aluminum & Power does not fully comply with relevant PRC laws, rules or regulations, or if Gaoxin Aluminum & Power is ordered by relevant PRC regulatory authorities to change, suspend construction or production or close relevant production facilities as a result of any past, or future illegal operation, or any past or future non-compliance with relevant PRC laws, rules or regulations, resulting in inadequate or delayed supply of alumina and electricity to us, we may be unable to find alternative sources at the same price level offered by Gaoxin Aluminum & Power or at otherwise commercially acceptable prices or terms in a timely manner, or at all, which would disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and prospects. See “– Any disruption in our manufacturing facilities could materially and adversely affect our business, financial condition and results of operations.”

RISK FACTORS

If there is any material adverse change in Gaoxin Aluminum & Power’s business, financial condition and results of operations, our business, financial condition and results of operations would be materially and adversely affected.

Gaoxin Aluminum & Power was our sole supplier of alumina and electricity, two principal cost components of our cost of sales, and it was our largest supplier for the nine months ended September 30, 2010, accounting for approximately 56.7% of our total procurement during the same period. In addition, pursuant to the alumina supply agreement between Gaoxin Aluminum & Power and us, Gaoxin Aluminum & Power agreed to provide us with price discounts with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of the relevant year, which will be determined through negotiation. Our average alumina purchase price was RMB1,590 per ton for the nine months ended September 30, 2010, which was lower than the average spot market price of alumina of RMB2,326 per ton in China for the same period. This is also an important factor that contributed to the significant increase in our net profit for the nine months ended September 30, 2010. For details of the pricing mechanism of alumina provided by us from Gaoxin Aluminum & Power, please see “Business – Procurement – Raw materials – Procurement of alumina.”

The future relationship between our Group and Gaoxin Aluminum & Power and the willingness and capability of Gaoxin Aluminum & Power to supply alumina and electricity to us will be critical to our business and operations. If there is any material adverse change in Gaoxin Aluminum & Power’s business, financial condition and results of operations, or it is unwilling or unable to provide us with high quality alumina and electricity in required quantities and at commercially acceptable prices, or if it enters into bankruptcy proceedings, our business, financial condition and results of operations would be materially and adversely affected. See “– We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected” and “– Any disruption in our manufacturing facilities could materially and adversely affect our business, financial condition and results of operations.”

In addition, according to the alumina supply agreement, we have maintained a deposit of RMB400.0 million with Gaoxin Aluminum & Power for its alumina supply to us. Moreover, we usually make full payment before we receive alumina and electricity from Gaoxin Aluminum & Power. We make prepayments in several instalments to Gaoxin Aluminum & Power every month and Gaoxin Aluminum & Power settles the purchase price of electricity with us by issuing invoices to us at the end of every month based on our actual purchase amount. See “Business – Electricity Supply – Electricity suppliers” and “Procurement – Raw Materials – Procurement of alumina – Alumina procurement from Gaoxin Aluminum & Power.” If there is any material adverse change in Gaoxin Aluminum & Power’s business, financial condition and results of operations, or if it enters into bankruptcy proceedings, we may not be able to recover such deposit or prepayments, and our business, financial condition and results of operations would be materially and adversely affected.

The global financial crisis which commenced in 2008 has had a negative impact on the global economy, including the aluminum industry. If the economic downturn continues, it may materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.

The global financial crisis which commenced in the second half of 2008 caused substantial volatility in the capital markets and a downturn in the global and PRC aluminum industry. As a result, China’s growth rates of aluminum production and consumption slowed down, and the prices of aluminum products experienced dramatic fluctuations in 2008, 2009 and 2010. The average selling price of our aluminum products decreased from approximately RMB16,292 per ton for 2007 to RMB14,379 per ton for 2008, RMB11,858 for 2009 and RMB13,430 for the nine months ended September 30, 2010. And our gross profit margin of the continuing operations was approximately 6.1% for 2008 and 10.4% for 2009, compared to 30.8% for 2007.

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Our gross profit margin of continuing operations increased to approximately 38.3% for the nine months ended September 30, 2010 from approximately 10.4% for 2009, and our net profit margin of continuing operations increased significantly to approximately 28.1% for the nine months ended September 30, 2010 from approximately 6.7% for 2009. Such significant increases in our gross profit margin and net profit margin for the nine months ended September 30, 2010 compared to those for 2009 was primarily due to (i) an increase in the average selling price of our aluminum products, which was partially driven by the recovery of the PRC economy, and (ii) a decrease in the unit cost of our aluminum products for the nine months ended September 30, 2010. However, we cannot assure you that we will be able to maintain such gross profit margin and net profit margin in the future.

Furthermore, banks' lending policies and the availability of credit to non-state-owned entities, such as ourselves, are significantly influenced by the global financial crisis and levels of investor confidence in credit markets, which could in turn affect the costs or availability of funding for entities like us. If this economic downturn continues or there are prolonged disruptions to the credit markets, this could limit our ability to raise funds from our current or other funding sources or cause the funds to become more expensive. Our sales may decline as a result of such tightening of banks' lending policies and credit conditions, and our business, liquidity, financial condition, results of operations and prospects may be materially and adversely affected.

It may be difficult for investors to evaluate our business and prospects due to our limited operating history and changes in our cost structure.

We started to produce aluminum products in September 2006. We have experienced rapid growth in our aluminum manufacturing business since then. Due to our limited operating history, there may not be an adequate basis for investors to evaluate our future results of operations and prospects. Moreover, our future business growth may not continue at the same rate as what we have experienced so far. In addition, we had certain operations during our Track Record Period that have been discontinued. See "Business – Discontinued Operations." Our profit derived from such discontinued operations amounted to approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, and we had recorded loss from the discontinued operations of approximately RMB9.4 million for 2009.

Furthermore, Chuangye Group was our sole alumina supplier for 2007, 2008 and 2009. In May 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which we procured alumina from Chuangye Group at production cost. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power, which is an Independent Third Party. We entered into an alumina supply agreement with Gaoxin Aluminum & Power in December 2009, pursuant to which the parties agreed to determine the base price of alumina supplied to our Group with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of the relevant year. In addition, provided that we pick up the alumina in bulk by ourselves, that our purchase volume is more than one million tons each year and that we maintain a deposit of RMB400 million, Gaoxin Aluminum & Power agreed to provide us with price discounts, which will be determined through negotiation. See "Business – Procurement – Raw materials – Procurement of alumina." Gaoxin Aluminum & Power has been our sole alumina supplier since January 1, 2010. As the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin Aluminum & Power are different, our historical raw materials cost and product cost structure may not be indicative of our raw materials cost and product cost structure in the future.

As a result, investors may have difficulties in evaluating our business and prospects because our historical performance may not be indicative of our business, financial condition and results of operations in the future.

RISK FACTORS

Any disruption in our manufacturing facilities could materially and adversely affect our business, financial condition and results of operations.

Our existing aluminum manufacturing facilities are all located in Zouping County, Shandong Province. In addition, our Binzhou Manufacturing Base Phase I and Phase II, which are under construction, and our planned Binzhou Manufacturing Base Phase III, are within close proximity to Zouping County. Any disruption or significant damage to our manufacturing facilities from natural or other causes, such as flood, fire and earthquake, could be costly and time-consuming to repair and could disrupt our operations. In such an event, we would be forced to seek alternative manufacturing sites and facilities, which we believe would be extremely difficult to locate and secure given the highly specialized and large-scale nature of our aluminum product manufacturing business. Even if we are able to identify an alternative manufacturing site, we may incur significant additional costs and we may experience a disruption in the supply of our products until our facilities become available and operational.

Our operations may be disrupted for other reasons as well. For example, if we fail to procure adequate raw materials or electricity for our production activities or at all, our operations may be disrupted. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”

Our smelting pots contain molten electrolytic aluminum. Should our production facilities suspend operations for any reason, such molten electrolytic aluminum would be solidified by the low temperature, and as a result, it would take a long time and extra electricity to recommence operations. Any disruption in our operations would have a material adverse impact on our ability to produce sufficient quantities of products or may require us to incur additional expenses in order to produce sufficient quantities, and could impair our ability to meet the demand of customers and cause customers to cancel purchase orders, any of which could materially and adversely affect our business, financial condition and results of operations.

If the end-user markets of aluminum products contract or do not grow at the pace we expect, our business, financial condition and results of operations may be materially and adversely affected.

Our business development has depended, and will continue to depend, substantially on the growth of the end-user markets for aluminum products. We experienced significant growth in the sales volume of our aluminum products during the Track Record Period. Growth in sales of our aluminum products has been primarily driven by growth in the end-user markets in which our aluminum products are used, particularly in the construction, electrical, transport and consumer durables sectors in the PRC. For details of the growth of aluminum consumption in the PRC, see “Industry Overview – PRC Aluminum Industry.” Any decline in the demand for our aluminum products from end-users could have a material adverse effect on our business, financial condition and results of operations.

If we fail to obtain sufficient amounts of raw materials that meet our quality standards and/or at commercially acceptable prices, our business, financial condition and results of operations would be materially and adversely affected.

Our business requires certain key raw materials, such as alumina, carbon anodes and fluorides. Although we had not experienced any shortage in the supply of raw materials during the Track Record Period, we cannot assure you that we will not experience any shortage in their supply in the future. If any shortage occurs, it would materially and adversely affect our production, business and results of operations. If any of our suppliers is unwilling or unable to provide us with high quality raw materials in required quantities and/or at commercially acceptable prices, we may be unable to find alternative sources or at commercially acceptable prices, on satisfactory terms in a timely manner, or at all, which would have a material adverse effect on our business, financial condition and results of operations.

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In particular, because alumina is one of the principal components of our cost of goods sold, accounting for approximately 63.2%, 69.1%, 73.4% and 61.6% of our total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, the price of alumina has a significant impact on our profitability. According to Antaike, the average price of alumina in China was approximately RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. We cannot assure you that there would not be any sudden shortage in supply of alumina, or any fluctuations in its price due to changes in market conditions, which would in turn lead to price increases in the future. In the event that the cost of alumina or any other raw materials that we use in the future increase significantly and we are not able to pass on the additional cost to our customers, our profit margin may be reduced.

Any failure by us and/or our sole alumina supplier, Gaoxin Aluminum & Power, to comply with any present or future environmental or occupational safety laws and regulations may require us to spend additional funds and/or interrupt our business operations and may materially and adversely affect our business, financial condition and results of operations.

We and our sole alumina supplier, Gaoxin Aluminum & Power, are required to comply with all relevant national and local environmental and occupational safety laws and regulations in the PRC. The pollutants discharged in our production process primarily include dust, sulfur dioxide, fluoride and chemical oxygen demand. See “Business – Environmental Protection – Our environmental protection measures.” As advised by our PRC legal advisors, Zong Heng Law Firm, we are in compliance with all applicable environmental protection and occupational safety laws and regulations in respect of the business currently conducted by us. We expect to be subject to additional requirements in the future, as the PRC government continues to pass laws aimed at strengthening environmental protection and occupational safety measures and adopts more stringent environmental and occupational safety standards. In addition, we expect that this trend will continue and that compliance will require additional capital expenditures and result in higher operating costs, which may materially and adversely affect our business, financial condition and results of operations. Any failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances or maintain workplace safety could subject us to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of our operations.

The production process of alumina creates solid waste called “red mud,” which, if not processed properly, will be harmful to human health and pollute soil and water. Our PRC legal advisors, Zong Heng Law Firm, have advised us that, although there are no national or local environmental protection standards governing the level of red mud created in the production process of alumina, there are certain regulations which govern the manner of storage and disposal of red mud and the measures adopted to prevent pollution caused by red mud, including the Regulation promulgated by the State Administration of Environmental Protection, which mainly provides that: (i) enterprises which create mine tailings should formulate prevention plans for mine tailings pollution, and adopt effective measures to prevent pollution caused by mine tailings; (ii) enterprises should build mine tailings processing or storage facilities, and mine tailings should be discharged into such mine tailings facilities; and (iii) effective measures on leakage prevention should be adopted for the mine tailings facilities which store dangerous mine tailings. Our Directors confirm that no red mud or other similar pollutant is discharged during our Group’s aluminum production process. The alumina production facilities operated by Gaoxin Aluminum & Power obtained environmental impact assessment approvals for construction of the alumina production lines on November 8, 2006 and September 17, 2008, and completion inspection approvals on February 2, 2008 and September 1, 2009 from the Ministry of Environmental Protection. As advised by our PRC legal advisors, Zong Heng Law Firm, based on the approvals issued by the Ministry of Environmental Protection in respect of the alumina production projects, and the confirmation letters issued by the Zouping County Environmental Protection Bureau dated November 29, 2010, the Binzhou City Environmental Protection Bureau dated December 2, 2010 and the confirmation letter issued by the Environmental Protection Bureau of Shandong

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Province dated December 27, 2010, effective measures have been taken to prevent any pollution caused by red mud and to ensure that the storage and disposal of red mud created from the alumina business of Gaoxin Aluminum & Power are in compliance with the relevant environmental laws and regulations.

In addition, our PRC legal advisors, Zong Heng Law Firm, have advised that the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau and the Environmental Protection Bureau of Shandong Province are the competent governmental authorities to issue such confirmation letters. However, there is no assurance that the confirmation of the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province will not be challenged by higher authorities supervising and guiding the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province under PRC laws and regulations.

In addition, any failure by Gaoxin Aluminum & Power, our sole alumina supplier, to control the use of, or to adequately restrict the discharge of, hazardous substances or maintain workplace safety, especially with respect to the storage and discharge of red mud, could subject Gaoxin Aluminum & Power to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of Gaoxin Aluminum & Power's alumina production activities. This could cause inadequate or delayed supply of alumina and electricity, which would materially and adversely affect our business, financial condition and results of operations will be materially and substantially affected. See "Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected."

If any of our large customers reduces its purchases of, or fails to pay for, our products, our business, financial condition and results of operations will be materially and adversely affected.

Our five largest customers accounted for approximately 63.1%, 66.1%, 58.0% and 74.1% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our largest customer accounted for approximately 43.9%, 24.1%, 20.0% and 41.5% of our revenue of continuing operations for the same periods. However, we have relatively short relationships with our top customers, ranging from one to four years, due to our short operating history.

Our business, financial condition and results of operations will continue to depend on: (i) our ability to continue to obtain purchase orders from our customers; (ii) the financial condition and commercial success of our customers; and (iii) factors that affect the development of the aluminum production industry. We cannot assure you that we will be able to retain any of our large customers or any other key customers. Any material delay or reduction in, or cancellation of, purchase orders from our key customers could cause our sales to decline significantly, and in any such event, our results of operations may be materially and adversely affected. We cannot assure you that these customers will place orders with us in the future at the same levels as in prior periods, or that any of these or future customers will not terminate their purchase agreements with us or significantly change, reduce, delay or cancel their purchase orders. If any of the foregoing events occurs, especially with respect to our large customers, there would be a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations also depend on the financial condition and commercial success of these customers. Although we have not experienced any material default or delay in payments by our customers, we cannot assure you that it will not occur in the future. If one or more of our large customers were to become insolvent or otherwise unable to pay for the products supplied by us, our business, financial condition, results of operations and business prospects would be materially and adversely affected.

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In addition, one or more of our key customers may reorganize by means of a corporate spin-off, merger or otherwise. Any such reorganization could disrupt, slow down or otherwise materially affect their business and operations and, therefore, our revenue. Moreover, the entities resulting from such reorganization may change suppliers or sourcing policies. If any of our key customers decides to significantly change its procurement methods, or otherwise reduces or eliminates the purchase of our aluminum products, our revenue would decline significantly.

We derive a significant portion of our revenue of aluminum products from Zouping County, Shandong Province through the sales of molten aluminum alloy.

We are headquartered in Zouping County, Shandong Province, which is one of the major aluminum product manufacturing bases in China. There are a number of downstream aluminum product manufacturers based in Zouping County. In particular, all of our molten aluminum alloy customers are based in Zouping County and in close proximity to our relevant manufacturing bases. Our revenue generated from sales of molten aluminum alloy accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our total revenue of aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. If demand for our molten aluminum alloy in Zouping County does not increase in line with our business expansion or if such demand decreases, we will have to look for alternative customers for our other aluminum products outside Zouping County. However, we may be unable to find alternative customers for our other aluminum products or at commercially acceptable prices on satisfactory terms in a timely manner, or at all, which would have a material adverse effect on our business, financial condition and results of operations.

If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our operating expenses could increase.

We are highly dependent upon third party logistics service providers to deliver our products to our customers. As we seek to closely match our inventory levels to our product demand, it is critical that our transportation systems function effectively and without delay. The transportation network is subject to disruption from a variety of causes, including operational inefficiencies, labor disputes or port strikes, acts of war or terrorism and natural disasters. In particular, as a hazardous good for transportation, the transport of our molten aluminum alloy may be delayed due to bad weather conditions, such as heavy snow. If our delivery time increases unexpectedly for these or any other reasons, our ability to deliver our aluminum products on time would be materially and adversely affected and result in delayed or loss of revenue. In addition, if fuel prices were to increase, our transportation costs would likely further increase. A prolonged transportation disruption or a significant increase in the cost of transportation could materially and adversely affect our business, financial condition and results of operations.

We rely on one single transport company to deliver our molten aluminum alloy products to our customers and it may be difficult to find alternative carriers.

Molten aluminum alloy has to be transported in specially designed containers to keep its temperature at 750°C to 900°C during delivery. Molten aluminum alloy is considered a hazardous good for transportation and special licenses and equipment are required for its transport. Binzhou Yinhe, an Independent Third Party, was our sole service provider for the delivery of our molten aluminum alloy products during the Track Record Period, and we expect to rely on Binzhou Yinhe exclusively for delivery of molten aluminum alloy products in the near future. As confirmed by Binzhou Yinhe, we were among its five largest customers for 2007, 2008, 2009 and the nine months ended September 30, 2010. If Binzhou Yinhe is unwilling or unable to continue to deliver molten aluminum alloy for us, it may be difficult to find alternative carriers due to the special requirements for molten aluminum alloy transport. If we are unable to find alternative carriers on satisfactory terms in a timely manner, or at all, our business, financial condition and results of operations would be materially and adversely affected.

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If our electricity costs increase significantly or if we are unable to obtain sufficient electricity supply, our business, financial condition and results of operations would be materially and adversely affected.

Aluminum production requires a stable supply of electricity in large quantities. Our electricity cost was approximately RMB1,159.4 million, RMB3,381.8 million, RMB3,870.9 million and RMB2,374.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. We have been able to meet our electricity needs by purchasing electricity from Chuangye Group and Gaoxin Aluminum & Power and by generating electricity using our own thermal power station. However, we may experience increased electricity costs, electricity shortages or disruptions in electricity supply in the future. For example, coal is an important material used to generate electricity. The purchase cost of coal accounted for approximately 7.2%, 10.9%, 11.2% and 20.8% of our total cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. We purchase coal from a number of coal suppliers and have not entered into any long-term coal supply agreements with such suppliers. As a result, any increase in the price of coal could increase the cost of electricity generated by our thermal power station. In addition, the price of electricity we purchase from Gaoxin Aluminum & Power is subject to adjustment through negotiation if the price fluctuation of coal with a heat value of 5,000 kilocalories per kilogram exceeds 20%. As a result, any increase in the base price of coal exceeding 20% could increase the price of electricity we purchase from Gaoxin Aluminum & Power. In addition, the electricity supply agreement between Gaoxin Aluminum & Power and us does not have a definite term and can be terminated by a 90-day prior written notice provided by any party. If Gaoxin Aluminum & Power chooses to cancel this electricity supply agreement, we cannot guarantee you that we may be unable to find alternative sources at the same price level offered by Gaoxin Aluminum & Power or at otherwise commercially acceptable prices or terms in a timely manner, or at all. See “Business – Electricity Supply – Electricity suppliers.” If there is a significant increase in our electricity costs as a result of an increase in coal cost or other reasons, an insufficient electricity supply to satisfy our production needs or any disruption in electricity supply, our business, financial condition and results of operations would be materially and adversely affected.

We may require additional capital in the future, which may not be available to us on commercially acceptable terms in time, or at all.

Our aluminum production facilities are highly capital-intensive to construct and maintain. Our capital expenditures amounted to approximately RMB3,265.8 million, RMB1,908.2 million, RMB1,089.1 million and RMB2,412.6 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, which were primarily used to increase our production capacity. For example, we are in the process of constructing our Binzhou Manufacturing Base Phase I and Phase II with an aggregate designed annual production capacity of approximately 610,000 tons of aluminum products. See “Business – Our Production Facilities.” Our future capital requirements may be substantial as we continue to seek to grow our business. We may need to raise additional funds to meet these requirements. From time to time, our plans may change due to changing circumstances, the development of our business, unforeseen contingencies or new opportunities and we may not be able to implement our plan within our budget. If our plans do change, we may need to obtain additional external financing to meet our capital expenditure plans, which may include commercial bank borrowings or the issuance of equity or debt securities. If we decide to raise additional funds through the incurrence of debt, our interest and debt repayment obligations will increase, and we may be subject to additional covenants, which could limit our ability to access cash flows from operations. We cannot assure you that we will be able to raise adequate financing to fund our future capital requirements on commercially acceptable terms in time, or at all.

We had net current liabilities position as of December 31, 2007, 2008 and 2009.

We had net current liabilities of approximately RMB2,972.3 million, RMB3,548.8 million and RMB2,654.0 million as of December 31, 2007, 2008 and 2009, respectively. As of September 30, 2010, we had net current assets of approximately RMB1,955.1 million.

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We may have net current liabilities in the future. Having significant net current liabilities could constrain our operational flexibility as well as adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on external borrowings for funding. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, we financed our operations in part through significant amounts due to related parties that were interest free. We may face increasing finance costs in the future after the Listing. If we fail to manage our finance costs effectively, our business, financial condition and results of operations would be materially and adversely affected.

During the Track Record Period, we had significant amounts due to our related parties, which amounted to approximately RMB2,857.0 million, RMB3,471.9 million, RMB3,646.8 million (inclusive of liabilities associated with assets held for sale) and nil as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively. These amount payables were interest free. These amounts included the bills which we received from third parties and endorsed to our related parties, which would not mature until a later date and amounted to approximately RMB869.5 million, RMB1,230.4 million, RMB599.9 million and nil as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively. If we had paid interest at the effective weighted average annual rate for our bank loans, which was 7.38%, 7.10%, 4.88% and 5.25% per annum for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, on these amount payables to our related parties as of December 31, 2007, 2008, 2009 and September 30, 2010, our finance costs could have increased by approximately RMB126.7 million, RMB150.1 million, RMB128.8 million and nil during the same periods, respectively.

The amount due to Profit Long Investment of approximately RMB3,193.9 million incurred in March 2010 was capitalized in April 2010 as part of the Reorganization. As of September 30, 2010, we had repaid all other amounts due to related parties, which amounted to approximately RMB3,556.5 million as of December 31, 2009. If we raise interest-bearing bank loans, they will significantly increase our finance costs in the future. If we fail to manage our finance costs effectively, our business, financial condition and results of operations would be materially and adversely affected.

We may not be able to manage our expansion effectively or complete our expansion projects as expected.

We have expanded and intend to continue to expand our operations, and such expansion has placed, and will continue to place, substantial demands on our managerial, operational, financial, technological and other resources. For example, we may enter into the downstream aluminum fabrication product market by using self-manufactured aluminum alloy products. In addition, we also plan to further expand our production capacity through the Binzhou Manufacturing Base Phase I and the Binzhou Manufacturing Base Phase II in 2011 and the Binzhou Manufacturing Base Phase III in 2012. See “Business – Our Production Facilities.” The construction, the production techniques and the products of the Binzhou Manufacturing Base Phase I, the Binzhou Manufacturing Base Phase II and the Binzhou Manufacturing Base Phase III are expected to be substantially the same. We have not applied for any approvals from or made any filings with relevant regulatory authorities for the Binzhou Manufacturing Base Phase III. Our PRC legal advisors, Zong Heng Law Firm, have advised us that on the basis that the production techniques and the products range of the Binzhou Manufacturing Base III will be essentially the same as Phase I and Phase II, and that our Company will duly submit the application and all required document, they do not foresee any material legal impediment for us to obtain all necessary approvals and permits from relevant regulatory authorities for our Binzhou Manufacturing Base Phase III under current laws, regulations and

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policies of the PRC. However, we cannot assure you that we will be able to obtain such approvals, permits or filings in time or at all or develop this project as we expect. If we fail to obtain such approvals, permits or filings or develop this project as we expect, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, we do not possess any previous experience or expertise in, and are not currently engaged in, developing, manufacturing or marketing aluminum fabrication products or other new products in the downstream chain of the aluminum industry in the PRC. Any future expansion will also place significant demand on us to maintain the quality of our products. To accommodate our growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvements to our internal management systems. We will also need to implement effective training programs to ensure consistently high-quality performance by our employees. All of these measures will require substantial management efforts. If we are unable to effectively manage our growth, or if we fail to develop new products or to enter into the downstream aluminum product market successfully, our business, financial condition and results of operations may be materially and adversely affected.

We face intense competition in China.

The industry in which we operate is highly competitive. Players in this industry generally compete with each other on factors such as reliability and quality of products, pricing, location of manufacturing site, time-to-market and available capacity. Some of our competitors may have longer track records and greater financial and other resources. There can be no assurance that we can continue to compete successfully in the future. In the event that we are unable to compete with other market players effectively, our business, financial condition, results of operations and prospects will be materially and adversely affected.

Our production capacity may not correspond precisely to our production demands.

On occasion, customers may require unusually rapid increases in output beyond our production capacity, and we may not have sufficient capacity at any given time to meet sharp increases in our customers' requirements. As a result, we may lose our customers and our reputation may be damaged. In addition, in the event that a customer reduces, defers or cancels its purchase orders after we have invested in increasing our capacity, our profit margins and financial condition may be adversely affected because we may not be able to recover our expenditures for inventory purchased in preparation for customer orders and we may not be able to realize optimal asset utilization of our aluminum manufacturing facilities.

Our future success depends in part on our ability to retain our executive Directors and senior management.

Our future success depends significantly on the continuing services of our executive Directors and senior management of our Group, in particular, Mr. Zhang Bo, our executive Director and chief executive officer. Mr. Zhang Bo is critical to the development of our business and strategic direction. If any member of our executive Directors and senior management, whose names are set out in the section headed "Directors and Senior Management" in this prospectus, is unable or unwilling to continue in his or her present positions, we may not be able to replace such member easily in a timely manner or at all, or we may incur additional expenses to recruit, train and retain personnel. Moreover, if any of these key personnel joins a competitor, we may lose customers, suppliers, know-how as well as other key professionals and staff members. The loss of any key personnel by our Group could have a material adverse effect on our business, financial condition and results of operations.

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Our results of operations may fluctuate from period to period.

Our results of operations are subject to significant fluctuations. Some material factors affecting our results of operations include, but are not limited to:

- alterations in demand for our aluminum products;
- our customers' sales outlook, purchasing patterns and changes in inventory level;
- our effectiveness in managing the manufacturing processes and controlling costs;
- our ability to optimize our available manufacturing capability;
- changes in the cost and availability of raw materials and electricity, which frequently occur in our industry and which affect our margins and our ability to meet delivery schedules;
- our ability to obtain financing in a timely manner; and
- local conditions and events that may affect our production volumes, such as labor conditions, stability of electricity supply, political instability and local holidays.

Due to the factors mentioned above and other risks discussed in this section, many of which are beyond our control, our results of operations may fluctuate from period to period. As a result, our Share price may be volatile and may not always accurately represent the longer-term value of our Company.

The interests of Mr. Zhang, our chairman and Controlling Shareholder, may differ from those of our Group and our other Shareholders, and Mr. Zhang has the ability to cause us to make decisions that may not be in the best interests of our other Shareholders.

Mr. Zhang, our chairman and Controlling Shareholder, currently beneficially owns 100% of the entire issued share capital of our Company and will beneficially own, assuming the Over-allotment Option is not exercised, approximately 84.96% of the issued share capital of our Company upon completion of the Global Offering. As such, Mr. Zhang has, and will continue to have, substantial influence over our business. We cannot assure you that Mr. Zhang will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the interests of our other Shareholders.

We may not be able to adequately protect our intellectual proprietary rights.

Our success depends in part upon our intellectual proprietary rights and know-how. However, we may not be able to adequately protect such intellectual proprietary rights. In addition, any attempt to enforce our intellectual property rights, even if successful, could result in costly and prolonged litigation, divert our management's attention and adversely affect our financial performance. Failure to adequately protect our intellectual property may materially and adversely affect our results of operations as our competitors would be able to utilize such property without having to incur the costs of developing it, thus potentially reducing our relative profitability. Also, if we fail to effectively protect our brand name from inappropriate use by third parties in ways that adversely affect our brand name, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations. Furthermore, we may be subject to claims that our technology infringes the intellectual property rights of other parties. Even if without merit, such claims could result in costly and prolonged litigation, divert management's attention, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

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Product liability claims against us could result in significant costs or negatively affect our reputation and could materially and adversely affect our business, financial condition and results of operations.

As of the Latest Practicable Date, we had not been exposed to any product liability claims. However, we cannot assure you that we will not experience material losses arising from product liability claims in the future. We do not maintain any product liability insurance, which we believe is in line with the industry practice. If our products fail to meet the required specifications or quality standards, our business could be materially and adversely affected. We may also face liability claims due to possible defective products. Such claims may be pursued by way of contractual remedy or by way of civil action if the defects in our products result in damages or injuries suffered by third parties. In such event, our reputation and our business, financial condition and results of operations would be materially and adversely affected.

We may be unable to pay any dividend on our Shares.

All of our operating assets are held by, and most of our earnings and cash flow are attributable to, our operating subsidiaries in the PRC. If the earnings from our operating subsidiaries decline, our earnings and cash flow will be materially and adversely affected. Under PRC law and the articles of association of our PRC subsidiaries, our PRC subsidiaries may only pay dividends after 10% of the net profit of the company in question which has been set aside as a statutory reserve fund (a requirement that is imposed until such reserve fund is equal to 50% of the company's relevant registered capital) under PRC GAAP. These restrictions on dividend payments may prevent our PRC subsidiaries from paying dividends to us.

We cannot assure you that we will declare dividends at all in the future. The declaration of future dividends, if any, will be proposed at the discretion of our Board and will depend upon our future results of operations, capital requirements, general financial condition, legal and contractual restrictions and other factors that our Board may deem relevant.

We may not have sufficient insurance coverage for the risks associated with our business operations.

Risks associated with our production include damage to production facilities, environmental pollution, transportation damages and delays, industrial damages and risks posed by natural disasters, any or all of which may result in losses to us. We may also be unable to obtain or maintain insurance policies covering risks associated with natural disasters, business interruption or environmental damages arising from our production activities. In addition, we do not have any product liability insurance. Therefore, if we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Future changes in laws, regulations or enforcement policies in China could adversely affect our business.

Laws, regulations and enforcement policies in China, including those regulating the aluminum industry, are evolving and are subject to future changes. See "Regulation Overview." For example, Chuangye Group obtained the approval to construct several electrolytic aluminum production lines during 2001 and 2002. However, in April 2004, the State Council launched a nationwide review of fixed-assets investments in the PRC. As a result, Chuangye Group did not launch the operations of these production lines after its trial production in 2004, and the operations of these production lines did not commence before they were sold to our Group in September 2006. See "History and Reorganization." During that period, Chuangye Group procured aluminum ingots from third-party aluminum manufacturers in the PRC and sold such aluminum ingots to customers under Chuangye Group's name. We cannot assure you that similar actions will not be taken by the relevant PRC regulatory authorities in the future. Different regulatory authorities may have different interpretation and enforcement of the aluminum industry policies, which requires companies to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies.

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As of the Latest Practicable Date, we had an aggregate designed capacity of approximately 916,000 tons of aluminum products at our Zouping Manufacturing Base and Weiqiao Manufacturing Base. In addition, we are constructing our Binzhou Manufacturing Base Phase I and Phase II with an aggregate designed annual production capacity of approximately 610,000 tons of aluminum alloy products. According to a confirmation letter issued on June 24, 2010, the Shandong NDRC has confirmed that, according to relevant PRC laws and regulations and after consulting with the NDRC, we have obtained all required approvals and permits and completed all required filings for our existing projects and projects under construction, and our operations have been in compliance with relevant laws, regulations and policies in the PRC. Our PRC legal advisors, Zong Heng Law Firm, have also advised us that, in respect of our existing projects and projects under construction, we have obtained all required approvals and permits and completed all required filings, and our operations have been in compliance with relevant laws, regulations and policies in the PRC. However, both we and our PRC legal advisors are of the view that, if the relevant regulatory authorities change their interpretation or enforcement of relevant policies in the future, we may be required to obtain further approvals or to meet other additional regulatory requirements. In addition, we may not be able to access the credit markets or obtain financing through corporate debt, commercial papers, medium-term notes, convertible bonds or equity issuances under the current industry policies. See “Regulation Overview – Entry Conditions and Industry Policies.”

If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, or stricter enforcement policies by the relevant PRC regulatory authorities, more stringent requirements could be imposed on the industry we currently engage. Compliance with such new requirements could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to meet such new rules and requirements relating to approval, construction, environmental or safety compliance of our operations, we may be ordered by the relevant PRC regulatory authorities to change, suspend construction of or close of the relevant production facilities. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs.

Our business involves inherent risks and occupational hazards. Due to the nature of our business, we engage or may engage in certain inherently risky and hazardous activities, including, among others, operating at high temperature materials and environment, use of strong electricity currents and delivery of hazardous products, and we are therefore subject to risks associated with these activities, including high temperature liquid leakages, equipment failures, industrial accidents, fire and explosions. These risks and hazards may result in personal injury and loss of life, damage to or destruction of properties or production facilities, and pollution and other environmental damage. For example, Aluminum Technology, a subsidiary of Chuangye Group, completed the construction of its aluminum molding and casting facilities in July 2007 and started trial operations in August 2007. On August 19, 2007, an explosion occurred in its factory, which resulted in 20 fatalities and 55 injuries. The relevant aluminum production facilities were destroyed in this accident. Pursuant to a preliminary circular issued by the State Work Safety Bureau on August 26, 2007, one of the major indirect reasons for this accident was related to the flaws in the design of production facilities prepared by Aluminum & Power, which did not possess the required design qualification. However, pursuant to a confirmation letter issued by the Binzhou Work Safety Bureau, which carried out a follow-on investigation and made the final conclusion with respect to this accident, dated as of April 9, 2010, Binzhou Work Safety Bureau confirmed that:

- (i) the design papers and information of the production facilities of Aluminum & Power were amended by the technical workers of Aluminum Technology;

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- (ii) Aluminum & Power was not involved in the design of the aluminum production facilities of Aluminum Technology and was not responsible for this accident;
- (iii) it fined Aluminum Technology in the amount of RMB2 million and banned Aluminum Technology from carrying out any alumina or aluminum businesses;
- (iv) although Mr. Zhang was not directly responsible for this accident, the Binzhou Work Safety Bureau still fined him with a total amount of RMB550,000 as he was the legal representative of Aluminum Technology at that time; and
- (v) the deceased and injured and their family members have been compensated with a total amount of approximately RMB9.0 million and all of the relevant claims have been settled.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that the Binzhou Work Safety Bureau was duly authorized by the Shandong provincial government to conduct investigation on the cause and details of this accident and is the competent authority to issue such confirmation letter, and based on such confirmation letter, Aluminum & Power is not responsible for this accident and all aluminum production assets currently held by our Group are in compliance with all relevant work safety laws and regulations in the PRC. In addition, our PRC legal advisors, Zong Heng Law Firm, have advised that the relevant governmental authorities (including the Binzhou Work Safety Bureau) completed the follow-on investigation and made the conclusion and decision relating to the accident in December 2007 and the results of the investigation were endorsed in February 2008 by the People's Government of Shandong Province, and the findings and penalties as described in the confirmation letter are final.

We cannot assure you that the same will not happen at our manufacturing bases in the future. Any of these consequences, to the extent they are significant, could result in business interruption, possible legal liability and damage to our business reputation and corporate image. In addition, we may also be subject to claims resulting from the subsequent use by our customers or other third parties of the products we have produced. If any of the above happens, our business, financial condition and results of operations would be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in China's economic, political and social conditions could adversely affect our business, financial condition and results of operations.

We conduct all of our operations in China and derive all of our revenue from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are materially affected by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC economy has grown significantly in recent years; however, we cannot assure you that such growth will continue. In response to the global economic slowdown and market volatility, the PRC government has lowered interest rates and announced large fiscal stimulus packages to boost the domestic economy, which include RMB4.0 trillion investments in, among other things, airports, highways, railways, power grids and other infrastructure developments, the effects of which cannot yet be fully determined. Recently, the PRC government has taken measures to tighten the control over bank lending. Any adverse change in the economic, political and social conditions or government policies in China could have a material adverse effect on overall economic growth, which in turn could lead to a reduction in demand for our aluminum products and consequently have a material adverse effect on our business financial condition and results of operations.

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Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

We conduct all of our manufacturing operations through our operating subsidiaries in China, which are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on currency conversion between Renminbi and foreign currencies and, in certain cases, the remittance of currency out of and into China. We receive all of our revenue in Renminbi, which is currently not a freely convertible currency. Under our current corporate structure, income of our Company will be primarily derived from dividend payments from Shandong Hongqiao. Shortages in the availability of foreign currency may restrict the ability of Shandong Hongqiao to remit sufficient foreign currency to pay dividends to us, or otherwise satisfy its foreign currency-dominated obligations. We also plan to transfer a portion of the proceeds from the Global Offering as well as proceeds from our future fund raising activities into China to fund our business operations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, in most cases, particularly payments of capital account items, approval from appropriate PRC governmental authority is required where (i) Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of offshore bank loans denominated in foreign currencies, and (ii) any foreign currency is to be converted into Renminbi for investment in China. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. In addition, the “Notice of SAFE on Issues Relating to Foreign Exchange Control on Fund Raisings by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investments” (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or the Circular 75, promulgated by SAFE, which came into force on November 1, 2005, applies to our Company and Mr. Zhang, the Controlling Shareholder of our Group. Mr. Zhang has completed the foreign exchange registration for its overseas investment under Circular 75 in 2010. However, Mr. Zhang will be required to file a modification to the foreign exchange registration for overseas investment in the event of any material capital changes, including, without limitation, (i) a subsequent equity financing for our Company outside of the PRC, including the Global Offering; (ii) a capital change in our Company; and (iii) any share transfer or share swap involving our Company in accordance with Circular 75. Payment of dividends, profits and other payments to our Company will not be permitted unless the aforesaid modification has been filed. If the foreign exchange control system prevents us from converting Renminbi into foreign currencies or vice versa, and obtaining sufficient Renminbi or foreign currency to satisfy our currency demands, our ability to transfer Renminbi to fund our business operations in China or to pay dividends in foreign currencies to our Shareholders, including holders of our Shares, may be adversely affected.

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Recent changes to the PRC tax laws have decreased the tax rate applicable to our business; however, any future changes to the PRC tax laws could adversely affect our business, financial condition and results of operations.

On March 16, 2007, the National People's Congress of the PRC passed the New EIT Law, which took effect on January 1, 2008. On December 6, 2007, the PRC government also adopted the Implementing Rules of the Enterprise Income Tax Law, or the Implementing Rules, which also took effect on January 1, 2008. Under the New EIT Law, a unified EIT rate of 25% and unified tax deduction standards are applied to both domestic invested enterprises and foreign-invested enterprises, or the FIEs. As a result, our effective tax rate of our continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010 was approximately 33.4%, 25.9%, 25.4% and 25.0%, respectively. Under the New EIT Law, the exemption from the withholding tax on dividends distributed by FIEs to their foreign investors under the previous tax laws is no longer available. In addition, the new tax law deems an enterprise established offshore but with "de facto management bodies" in the PRC as a "resident enterprise" which is subject to the PRC EIT on its global income excluding dividends received from its PRC subsidiaries. All members of our management are currently located in the PRC, and we expect them to continue to be located in the PRC in the foreseeable future. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, our global income, excluding dividends received from Shandong Hongqiao, will be subject to PRC income tax at a tax rate of 25%. PRC tax authorities in different districts may be inconsistent in classifying resident enterprises and non-resident enterprises. Either the imposition of withholding tax on dividends payable from Shandong Hongqiao to us or the imposition of PRC tax on our global income as a "resident enterprise" under the New EIT Law could have a material adverse effect on our business, financial condition and results of operations. Pursuant to the arrangement between the PRC government and the Hong Kong SAR, where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, subject to certain approval and filing requirements, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

We face foreign exchange and conversion risks, and fluctuations in the value of the Renminbi may have a material adverse effect on your investment.

The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. The PBOC issued a public notice on July 21, 2005 increasing the exchange rate of the Renminbi against the US dollar by approximately 2% to RMB8.11 per US\$1.00. Further to this notice, the PRC government has reformed its exchange rate regime by adopting a managed floating exchange rate regime based on market supply and demand with reference to a portfolio of currencies. Under this regime, the Renminbi is no longer pegged to the US dollar. We cannot predict how and to what extent the exchange rate of the Renminbi will fluctuate in the future. To the extent that we need to convert Hong Kong dollars we receive from the Global Offering into Renminbi for our operations, appreciation of the Renminbi against the Hong Kong dollar could have a material adverse effect on the value of the net proceeds we will receive from the Global Offering in Hong Kong dollars, our business, financial condition and results of operations. Conversely, as we rely entirely on dividends paid to us by Shandong Hongqiao, any depreciation of the Renminbi may materially and adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms. Further information on our foreign exchange risks and certain exchange rates is set out in the section headed "Financial Information – Quantitative and Qualitative Disclosure about Market Risk – Foreign currency risk" in this prospectus.

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We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of H1N1 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics or outbreaks. China reported a number of cases of SARS in April 2004. In 2006, 2007 and 2008, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. In April 2009, an outbreak of H1N1 flu occurred in Mexico and the United States and human cases of H1N1 flu were discovered in China and Hong Kong. Any prolonged occurrence or recurrence of H1N1 flu, avian flu, SARS or other adverse public health developments in China or any of the major markets in which we do business may have a material adverse effect on our business and operations. These could include our ability to deliver our products, as well as temporary closure of our manufacturing facilities, or our customers' facilities, leading to delayed or cancelled orders. Any severe travel or shipment restrictions and closures would severely disrupt our operations and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) and us and may differ from the market prices for our Shares after the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile. We cannot assure you that our Shareholders will be able to sell their Shares or achieve their desired price. As a result, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our sales, earnings, cash flows and costs, announcements of new investments and changes in laws and regulations in China. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible assets value per Share if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Future sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

Future sales of a substantial number of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods ending six to twelve months after the date of Listing, details of which are set out in the section headed "Underwriting" in this prospectus. We cannot assure you that our Controlling Shareholders will not dispose of any Shares it may now own or in the future.

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Certain facts and other statistics with respect to China, the PRC economy and the global and PRC aluminum industries in this prospectus are derived from various official government sources and may not be reliable.

Certain facts and other statistics in this prospectus relating to China, the PRC economy and the global and PRC aluminum industries and related markets have been derived from various official government publications. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Sole Global Coordinator, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports or other publicly available information without carefully considering the risks and other information contained in this prospectus.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. For example, the August 11, 2010 edition of Ming Po Daily (明報) contained an article which reported on the Listing, including the proposed offering size of HK\$7.8 billion, the tentative listing timetable, our Controlling Shareholder's background, the profit forecast for 2010 and our business operations and customers; the November 4, 2010 edition of the Wall Street Journal, Apple Daily (蘋果日報) and Hong Kong Economic Times (香港經濟日報) contain articles which reported on the listing timetable, the proposed offer size and the identities of the underwriting syndicates; and the January 18, 2011 edition of Apple Daily (蘋果日報) contained an article which reported on the market value, market share, expansion plan, unit production cost for 2010 and the identity of the largest customer of our Group. We have not authorized the disclosure of any such information in the press or other media. In addition, Chuangye Group issued a series of short-term RMB bonds in the inter-bank market in the PRC with a total amount of approximately RMB2.8 billion to commercial banks in the PRC in 2007 and 2008. The offering circulars of these bonds, or the Offering Circulars, contain certain disclosures relating to our operating and financial data which are inconsistent with or have different presentation basis from this prospectus. For example, pursuant to the requirement of Risk Management Guidelines for Credit Granted to Group Customers by Commercial Banks (商業銀行集團客戶授信業務風險管理指引), or the Risk Management Guidelines, promulgated in 2003 by the China Banking Regulatory Commission, the principal regulator for commercial banks in the PRC, Aluminum & Power and Shandong Hongqiao were required by the relevant underwriting banks to be treated as member companies of Chuangye Group for risk management purpose as Chuangye Group, Aluminum & Power and Shandong Hongqiao were regarded as related parties. As a result, Aluminum & Power and Shandong Hongqiao were consolidated in Chuangye Group's financial statements for 2006 in the Offering Circulars, although they were in fact beneficially and wholly owned by Mr. Zhang from June 2006 as described in the section headed "History and Reorganization" in this prospectus. Chuangye Group did not disclose such special presentation basis in the Offering Circulars. These short-term bonds have been fully repaid upon maturity. Though there were overlaps between the directors of Chuangye Group and us, namely Mr. Zhang, Mr. Zhang Bo and Mr. Yang Congsen, when the Offering Circulars were issued, as advised by Tian Yuan Law Firm, a PRC law firm retained by our Group, none of these overlapping directors will be subject to any potential administrative, civil or criminal liabilities in the PRC as a result of such omissions or differences in disclosure. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media

RISK FACTORS

or otherwise publicly available, nor the fairness or appropriateness of any estimates/forecasts, views or opinions expressed by the press or other media or otherwise publicly available regarding our Shares or the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in our Shares or in the Global Offering. You should rely solely upon the information contained in this prospectus, the application forms and any formal announcements made by us in making your investment decision regarding our Shares.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

In preparation for the Listing, we have sought the following waivers and exemption from strict compliance with the relevant provisions of the Listing Rules and the Companies Ordinance:

I. MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, none of our executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Hong Kong Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Zhang Bo and Ms. Zhang Yuexia. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable time frame upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorized representatives has been duly authorized to communicate on our behalf with the Hong Kong Stock Exchange.
- (b) In addition, we have appointed a compliance advisor pursuant to Rule 3A.19 of the Listing Rules who will also act as our communication channel with the Hong Kong Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report of our financial results for the year ending 31 December 2013 in accordance with Rule 13.46 of the Listing Rules.
- (c) Both the authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (i) each executive Director will provide valid phone numbers or means of communication to the authorized representatives when he or she is travelling; and (ii) each Director will provide his or her mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange.
- (d) All executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time, when required.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

II. JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, an issuer must have a company secretary who is ordinarily resident in Hong Kong and has the requisite knowledge and experience to discharge the functions of company secretary of the issuer and who:

- (a) in the case of an issuer which was already listed on December 1, 1989 held the office of secretary of the issuer on that date;
- (b) is an Ordinary Member of The Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant; or
- (c) is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging those functions.

Most of our Group's operations are currently based in the PRC and it is expected that, for the foreseeable future, our Group will not have sufficient management presence in Hong Kong. As such, it is vitally important that the company secretary of our Company should possess sufficient knowledge and experience to discharge the functions of a company secretary.

Our Company has appointed Ms. Zhang Yuexia (張月霞) and Ms. Ho Wing Yan (何詠欣) as the joint company secretaries of the Company. As Ms. Ho Wing Yan is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and is ordinarily resident in Hong Kong, she is qualified to act as a joint company secretary of our Company. Whilst the Directors consider Ms. Zhang Yuexia is capable of discharging her duty as a joint company secretary of our Company by virtue of her background and experience (as detailed in the section headed "Directors and Senior Management" in this prospectus), she is not a professional accountant, a member of the Hong Kong Institute of Chartered Secretaries, or a solicitor or barrister as defined in the Legal Practitioners Ordinance, as required under Rule 8.17 of the Listing Rules. Therefore, our Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Listing Rules for an initial period of three years from the date of the Listing and the following arrangements have been made to satisfy those requirements:

- (i) Ms. Ho Wing Yan, a joint company secretary who meets all the requirements under Rule 8.17 of the Listing Rules, will assist and guide Ms. Zhang Yuexia so that she is able to acquire the relevant knowledge and experience as required under the Listing Rules in order to discharge her functions as a joint company secretary of our Company.
- (ii) Our Company undertakes to reapply to the Hong Kong Stock Exchange in the event that Ms. Ho Wing Yan ceases to meet the requirements under Rule 8.17 of the Listing Rules or otherwise ceases to be in a position to provide service to our Company.
- (iii) Ms. Zhang Yuexia has been appointed as a joint company secretary of our Company for a term commencing from January 16, 2011 and ending on the date which is three years from the Listing Date, a period which should be sufficient for her to acquire the relevant knowledge and experience required by the Hong Kong Stock Exchange.
- (iv) Our Company will further ensure that Ms. Zhang Yuexia has access to the relevant training and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Hong Kong Stock Exchange. Our Company's Hong Kong legal advisors have provided training on the Listing Rules to Ms. Zhang Yuexia. In addition, Ms. Zhang Yuexia will endeavour to familiarize herself with the Listing Rules during the three-year period from the Listing Date.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

- (v) Upon expiry of Ms. Zhang Yuexia's initial term of appointment as one of the joint company secretaries of our Company, our Company will evaluate her experience in order to determine if she has acquired the qualifications required under Rule 8.17 of the Listing Rules, and whether on-going assistance should be arranged so that Ms. Zhang Yuexia's appointment as a company secretary of our Company continues to satisfy the requirements under Rule 8.17 of the Listing Rules.

III. WAIVER FROM RULE 8.08(1)(a) OF THE LISTING RULES

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the issuer's total issued share capital must at all times be held by the public. We have applied to the Stock Exchange to request the Stock Exchange to exercise, and the Stock Exchange has confirmed that it will exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the higher of 15.04% and the percentage upon the exercise of the Over-allotment Option. The above discretion is subject to the condition that we comply with the disclosure requirements under Rule 8.08(1)(d) of the Listing Rules. We will make appropriate disclosure of the lower prescribed percentage of public float and confirm sufficiency of the public float in our successive annual reports after the Listing.

IV. CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions, which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. We have received from the Hong Kong Stock Exchange a waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

V. WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE TO THE COMPANIES ORDINANCE

Paragraph 27 of the Third Schedule to the Companies Ordinance prescribes that a statement as to the gross trading income or sales turnover of the company during the three preceding years as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities, be included in a prospectus. Paragraph 31 of the Third Schedule to the Companies Ordinance further prescribes that a report by the auditors of the company with respect to (i) the profits and losses of the company for each of the three financial years immediately preceding the issue of a prospectus; and (ii) the assets and liabilities of the company at the last date to which the accounts of the company were made up, be included in a prospectus.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended December 31, 2010 in this prospectus on the ground that it would be unduly burdensome for us. A certificate of exemption has been granted by the SFC under section 342A of the Companies Ordinance on the condition that (i) particulars of the exemption are set out in this prospectus; and (ii) this prospectus will be issued by March 14, 2011.

Rule 4.04(1) of the Listing Rules states that the accountants' report must include, inter alia, "the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries in respect of each of the three financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Exchange".

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

An application has also been made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the ground that it would be unduly burdensome for us to do so within a short period of time after December 31, 2010. A waiver has been granted by the Hong Kong Stock Exchange on the condition that (i) the grant of a certificate of exemption from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance by the Securities and Futures Commission; and (ii) listing of the shares of our Company on the Hong Kong Stock Exchange will commence on or before March 31, 2011.

Although we do not include an accountant's report for the year ended December 31, 2010 in the prospectus due to time constraint, we expect to publish our preliminary results for the same period on March 31, 2011 pursuant to Rule 13.49 of the Listing Rules.

Having regard to the demand for and prices of aluminium products, the expansion of the Group's production capacity, prices of raw materials, electricity and coal prices and the business environment in the PRC, our Directors confirm that up to the Latest Practicable Date, there has been no material adverse change in our financial and trading position or prospects since September 30, 2010 and there is no event since September 30, 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus. Our Directors consider that all the information necessary for the investment public to make an informed assessment of the business activities and financial position of our Group has been included in this prospectus and that an exemption from compliance with the above accounting period requirement would not prejudice the interest of the investment public.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving our information to the public. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters, any of their respective directors, officers, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering,” and the procedures for applying for Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares” and in the relevant Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his, her or its acquisition of Offer Shares to, confirm that he, she or it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the listing committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares and any Shares to be issued pursuant to the exercise of the Over-allotment Option.

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our shares (or exercising rights attached to them). None of us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters and any of our or their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Butterfield Fulcrum Group (Cayman) Limited in Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in our Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

EXCHANGE RATE CONVERSION

For exchange rate translations throughout this prospectus, unless otherwise specified, we have used the PBOC Rates of HK\$1 and US\$1 to RMB0.8435 and RMB6.5670, respectively, each being the PBOC Rate on the Latest Practicable Date. All translations from HK dollars into US dollars were made at the rate of US\$1.00 to HK\$7.7879. We make no representations and none should be construed as being made, that any of the Renminbi, HK dollar or US dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Zhang Shiping	A Villa, No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC	Chinese
Zheng Shuliang	A Villa, No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC	Chinese
Zhang Bo	Room 302, Unit 1, Building 2 Middle District No. 316, Huanghe Fifth Road Bincheng District, Binzhou City Shandong Province, the PRC	Chinese
Qi Xingli	B-12 Villa, No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC	Chinese
<i>Non-executive Directors</i>		
Yang Congsen	B-8 Villa, No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC	Chinese
Zhang Jinglei	Room 401, Unit 1, Building 9 No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Xing Jian	Room 901, Unit 2, Building 8-11 Bingyaokou Hutong Xicheng District Beijing, the PRC	Chinese
Chen Yinghai	Room 2204, A Building 18, Third District Fang Cheng Yuan Fengtai District Beijing, the PRC	Chinese
Han Benwen	Room 202, Unit 3, Building 17 No. 10 Liqun Second Road Zouping County, Binzhou City Shandong Province, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator and
Sole Sponsor**

J.P. Morgan Securities (Asia Pacific) Limited
Level 28, Chater House
8 Connaught Road
Central, Hong Kong

Joint Bookrunners

International Offering

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

BOCOM International Securities Limited
201 Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

ICBC International Capital Limited
Levels 17 & 18
Three Pacific Place
1 Queen's Road East
Hong Kong

Mizuho Securities Asia Limited
12th Floor, Chater House
8 Connaught Road Central
Hong Kong

BNP Paribas Capital (Asia Pacific) Limited
59th to 63rd Floors, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Hong Kong Public Offering

J.P. Morgan Securities (Asia Pacific) Limited
Level 28, Chater House
8 Connaught Road
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BOCOM International Securities Limited
201 Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

ICBC International Capital Limited
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BNP Paribas Capital (Asia Pacific) Limited
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8 Finance Street
Central, Hong Kong

Barclays Capital Asia Limited
41st Floor, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

International Offering

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

BOCOM International Securities Limited
201 Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

ICBC International Securities Limited
Levels 17 & 18
Three Pacific Place
1 Queen's Road East
Hong Kong

Mizuho Securities Asia Limited
12th Floor, Chater House
8 Connaught Road Central
Hong Kong

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59th to 63rd Floors, Two International Finance Centre
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Central, Hong Kong

Barclays Bank PLC
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Hong Kong Public Offering

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8 Connaught Road Central
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59th to 63rd Floors, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Barclays Capital Asia Limited
41st Floor, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

Legal advisors to our Company

as to Hong Kong and U.S. law
Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law
Zong Heng Law Firm
Room 500, Building of Textile Industry Bureau
No. 12 East Chang-An Avenue
Beijing, China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>as to Cayman Islands law</i> Conyers Dill & Pearman Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands</p>
Legal advisors to the Underwriters	<p><i>as to Hong Kong law and U.S. law</i> Clifford Chance 28th Floor, Jardine House One Connaught Place Central, Hong Kong</p> <p><i>as to PRC law</i> Jingtian & Gongcheng Attorneys at Law 34th Floor, Tower 3, China Central Place 77 Jianguo Road Beijing, China</p>
Auditors and reporting accountants	<p>Deloitte Touche Tohmatsu Certified Public Accountant 35th Floor, One Pacific Place 88 Queensway Hong Kong</p>
Property valuer	<p>Jones Lang LaSalle Sallmanns Limited 6th Floor, Three Pacific Place 1 Queen's Road East Hong Kong</p>
Receiving banker	<p>Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central, Hong Kong</p> <p>Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower, 3 Garden Road Central, Hong Kong</p> <p>Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Hong Kong</p>
Compliance advisor	<p>Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong</p>

CORPORATE INFORMATION

Registered office	Scotia Centre, 4th Floor P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands
Head office in the PRC	Huixian One Road Zouping Economic Development District Zouping County Shandong Province the PRC
Principal place of business in Hong Kong	43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's website	www.hongqiaochina.com <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company secretaries	Zhang Yuexia Ho Wing Yan <i>(ICSA, HKICS)</i>
Authorized representatives	Zhang Bo Room 302, Unit 1, Building 2 Middle District No. 316, Huanghe Fifth Road Bincheng District, Binzhou City Shandong Province, the PRC Zhang Yuexia Room 401, Unit 2, Building 9 No. 41, Huixian One Road Zouping Economic Development District Zouping County, Binzhou City Shandong Province, the PRC
Audit committee	Han Benwen <i>(Chairman)</i> Xing Jian Chen Yinghai
Nomination committee	Xing Jian <i>(Chairman)</i> Zhang Shiping Han Benwen
Remuneration committee	Zhang Shiping <i>(Chairman)</i> Han Benwen Xing Jian

CORPORATE INFORMATION

Principal bankers

Industrial and Commercial Bank of China Limited
Binzhou Branch, Zouping Sub-branch
No. 183, Huangshan Third Road
Zouping County
Shandong Province, the PRC

Bank of Communications Ltd., Shandong Branch
No. 98, Gongqingtuan Road, Jinan City
Shandong Province, the PRC

**Cayman Islands principal share registrar and
transfer office**

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

Hong Kong Share Registrar

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

INDUSTRY OVERVIEW

Certain information and statistics set out in this section have been extracted from various government publications, market data providers and other independent third party sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon.

OVERVIEW

The aluminum industry is the world's second largest metals industry, after steel. The global consumption of primary aluminum in 2009 was estimated by Antaike⁽¹⁾ to be approximately 34.9 million tons. Primary aluminum is made from alumina (which is made from bauxite). Primary aluminum is processed into various fabricated products, such as rolled sheet, coil and plate, extruded bars and sections, wire-rod, castings and forgings.

Aluminum has a relatively short history as an industrial metal. Its widespread use only became viable in the late 19th century, with the discovery of the Hall-Heroult process for the electrolytic smelting of aluminum, and the Bayer process for the production of alumina. Both processes are still in use today as the main (indeed almost exclusive) processes for producing aluminum and alumina.

Aluminum is an abundant element in nature, but its principal commercial ore is bauxite. Bauxite is largely found in tropical areas of the world, with the main global reserves located in Guinea, Australia, Brazil, India and Jamaica. From bauxite, aluminum is produced in two stages. Bauxite is processed in an alumina refinery to produce alumina (Al₂O₃), an oxide of aluminum. Other than being used to produce alumina, bauxite can be used to produce alumina cement, refractory materials, or be used in casting. Alumina is then processed into primary aluminum in an electrolytic smelter. There are two smelting technologies involved in the electrolytic process commonly used to produce primary aluminum: the "Söderberg" or "self-baking" technology and the "pre-baked" technology. According to Antaike, all production facilities using the "Söderberg" or "self-baking" technology have been eliminated in the PRC, due to its higher electricity consumption and pollutive emissions compared to the "pre-baked" technology. Aluminum produced through smelting is called primary aluminum, and aluminum produced by refining waste aluminum products is called secondary aluminum. As an industry standard, primary aluminum includes pure aluminum and aluminum alloy. Primary aluminum products are categorized as upstream aluminum products in this prospectus. Our products include molten aluminum alloy, aluminum alloy ingots and aluminum busbars.

Aluminum and aluminum alloys have a broad range of end-uses. Currently, the main uses of aluminum and aluminum alloys include construction (windows, doors, cladding, facades), transport (in road vehicles, aircraft, railcars and marine uses), electrical (cable and wire), consumer durables, and others.

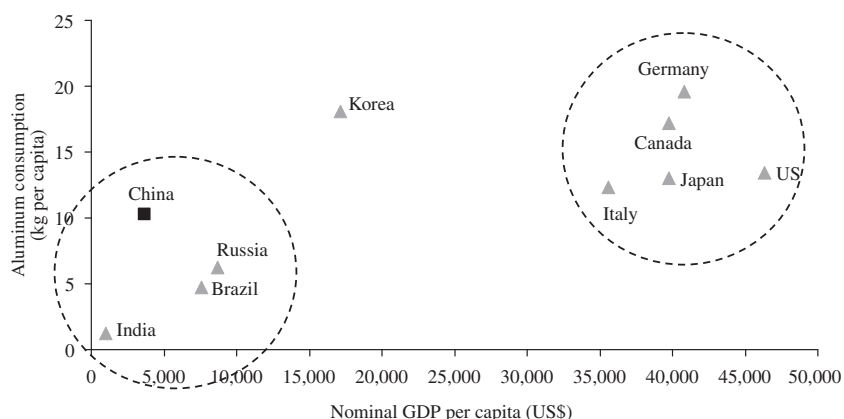
- (1) Beijing Antaike Information Development Co., Ltd. is an information provider for the mining and metals industries based in Beijing, which offers up-to-date information and reports on China metal market through websites and a number of publications. Antaike is owned as to 42.6% by the Technology & Economy Institute of China National Nonferrous Metals Industry, which is an Independent Third Party, and 57.4% by other Independent Third Parties.

The parameters and assumptions of Antaike reflect its understanding of the prevailing international and China aluminum products market at the time of preparation of the report. The historical market data are generated through the analysis of relevant data such as production, trading and consumption that are in turn prepared by various industry associations and reputable research & statistics institute such as the World Bureau of Metal Statistics, U.S. Geological Survey, Brookhant, China Nonferrous Metals Industry Association, China Association of Automobile Manufacturers and China Customs. Antaike prepared market forecasts by analyzing the historical market and the key demand drivers such as GDP, industrial production and urbanization on a country-by-country and key sector basis generated and maintained by its own models and analysis system, after taking into account the views from Antaike's industry contacts. The consulting fees in the aggregate amounted to not more than RMB650,000 were paid by our Company. Such fees were determined under normal commercial terms after arms' length negotiations. Antaike has had no previous dealings with our Group.

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GLOBAL ALUMINUM INDUSTRY

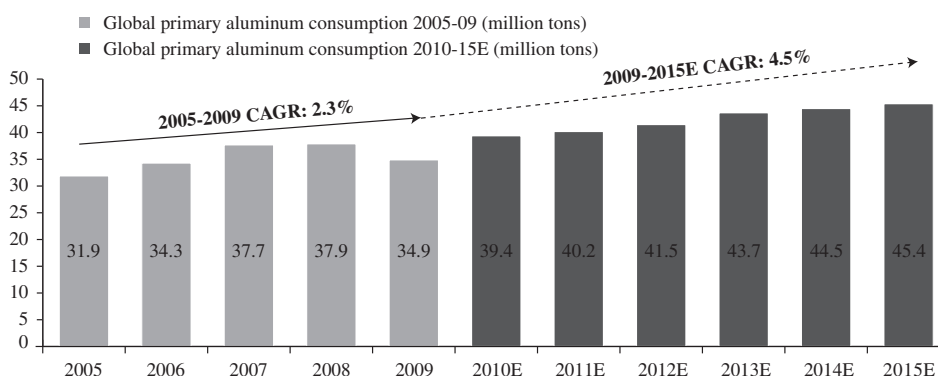
With broad end-use markets, aluminum consumption has been particularly leveraged to the GDP growth and industrial production. The chart below summarizes the positive correlation between per capita consumption of aluminum and GDP per capita in countries with different degrees of economic development. As illustrated in the chart below, developing countries (bottom left-hand quadrant) generally, on a per capita basis, consume less aluminum than developed countries (top right-hand quadrant) on a per capita basis in 2009. As the GDP per capita of developing countries in the lower left quadrant, such as China, India and Brazil, increases, the consumption of aluminum on a per capita basis is expected to increase. Aluminum demands in these developing countries have significant growth potential.



Source: Antaika

Over the last five years, worldwide consumption of primary aluminum had grown at a CAGR of 2.3%, mainly driven by the strong demand from emerging markets, especially from China, India, and Brazil. During the global economic downturn, global consumption of primary aluminum fell in 2009 by 7.8%. However, the global demand for primary aluminum is expected to recover with a growth of 12.8% in 2010, fuelled largely by an estimated 15.2% growth in China, primarily due to re-stocking and governmental incentive measures to promote the consumption of durable goods and vehicles.

Antaika forecasts that primary aluminum demand between 2009 and 2015 will grow at a CAGR of 4.5% globally (as the following chart shows).



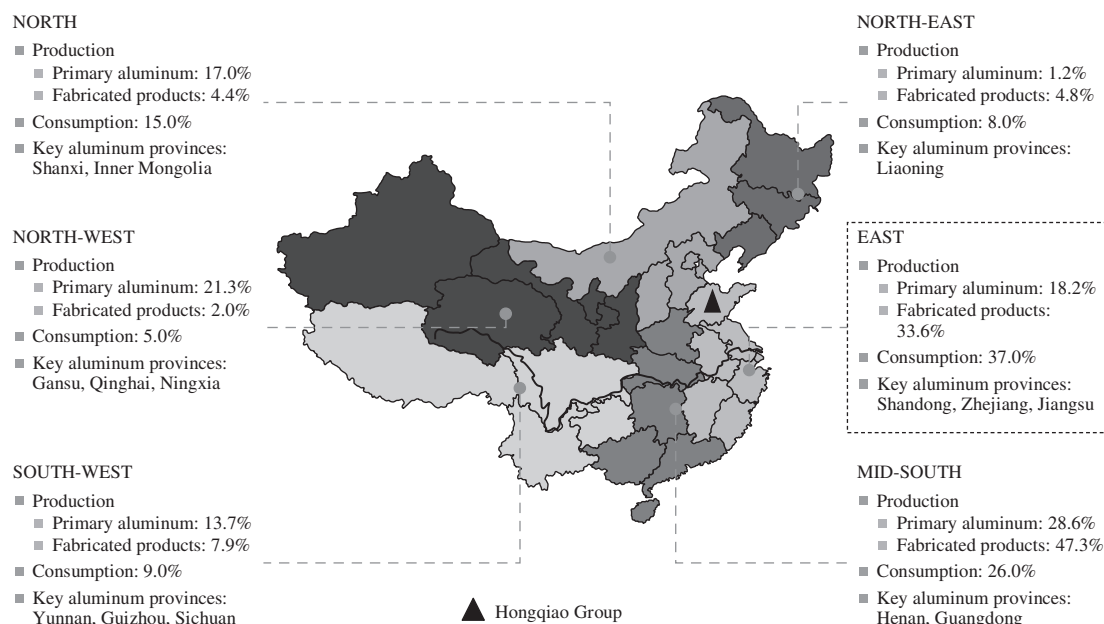
Source: Antaika

INDUSTRY OVERVIEW

PRC ALUMINUM INDUSTRY

Geographical Distribution of Aluminum Production and Consumption in China

The map below shows the geographical distribution of aluminum production and consumption in China for the nine months ended September 30, 2010 (as percentages of total production, consumption, and downstream fabricated products produced in China):



Source: Antaike

Notes:

Definition of the regions is provided by Antaike as follow:

East region – Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi, Fujian and Shanghai

North-east region – Heilongjiang, Jilin and Liaoning

Mid-south region – Henan, Hubei, Hunan, Guangdong, Guangxi, Hainan

South-west region – Sichuan, Yunnan, Guizhou, Chongqing, Tibet

North-west region – Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang

North region – Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia

Chinese aluminum manufacturers are distributed across 22 provinces in China. They are concentrated in provinces with rich bauxite resources and electricity cost advantages. In the downstream sector, aluminum fabricating plants tend to be located in close proximity to the smelting plants.

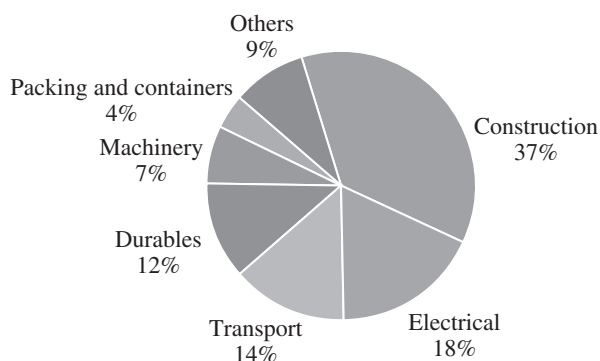
East China region, including Shandong Province, where our production facilities are located, is the largest aluminum consuming region in China, representing 37.0% of the country's aluminum consumption for the nine months ended September 30, 2010. Within this region, the Yangtze River Delta is the most important and developed economic and manufacturing center in China, contributing to 21.4% of the national GDP in 2009, according to National Bureau of Statistics of China. Meanwhile, it is China's second largest aluminum production base, accounting for 18.2% of total capacity in China, due to the availability of rich bauxite resources and low cost energy. This region is also the most important manufacturing base of aluminum fabrication products in China, contributing 33.6% of national production for the nine months ended September 30, 2010.

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Strong domestic demand

Aluminum consumption in China has experienced rapid growth in the last two decades due to strong and continuous economic growth. According to the National Bureau of Statistics of China, China's gross domestic product expanded at a CAGR of approximately 15.0%, from RMB10,966 billion in 2001 to RMB33,535 billion in 2009, while its industrial production increased from approximately RMB4,261 billion in 2001 to approximately RMB13,462 billion in 2009, representing a CAGR of 15.5%. We believe the favorable macroeconomic environment in China has contributed, and will continue to contribute, to the increase of China's demand for aluminum.

China has been a key driver of the global aluminum industry over the past decade, and has surpassed the US as the largest aluminum consumer globally since 2005. In 2009, China consumed approximately 13.8 million tons of primary aluminum, representing 39.5% of world total consumption. This ratio increased from 22.3% in 2005 and is expected to reach 51.0% by 2015, according to Antaika. The chart below shows the breakdown of domestic aluminum consumption by end-use in 2009.



Source: Antaika

Despite the strong growth in the past decade, China's aluminum consumption on a per capita basis is still below that in the developed economies. The table below sets forth an overview of the aluminum consumption in China and the United States, Japan, Germany and Canada in 2009.

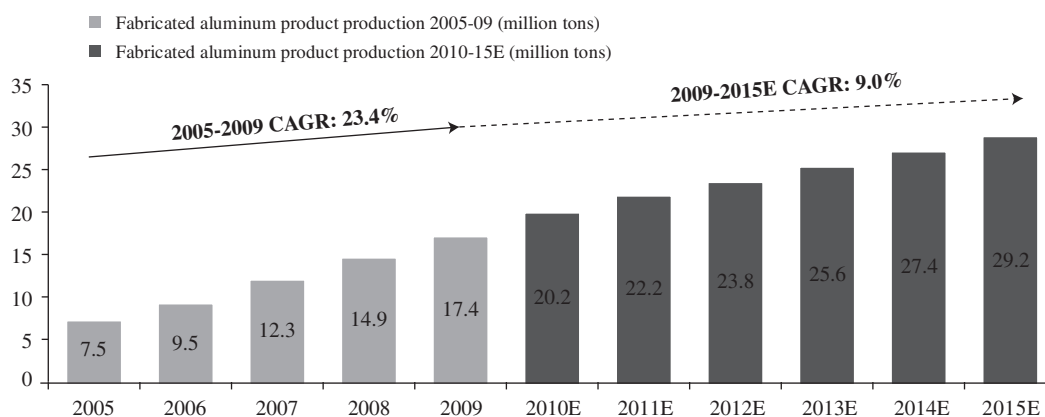
Aluminum consumption data in 2009

Country	Total Aluminum Consumption (thousand tons)	Per Capita Aluminum Consumption (kg)	Per Capita GDP (US\$)
United States	4,124	13.4	46,318
Japan	1,652	12.9	39,759
Germany	1,602	19.6	40,813
Canada	581	17.3	39,754
China	13,800	10.3	3,674

Source: EIU and Antaika

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Primary aluminum can be processed into various downstream fabricated products including flat-rolled products (plates, sheets, strips and foils), extrusion products (tubes, bars and profiles), wire-rod, castings and forgings. As the chart below shows, total production of fabricated aluminum products in China increased rapidly at a CAGR of 23.4% from 2005 to 2009, and is expected to grow at a CAGR of 9.0% through 2015, which will support the future growth of demand for aluminum products in China.



Source: Antaike

In particular, there are significant growth potentials in the industries of construction, automotives and railway transport in China.

Construction

Aluminum products are widely used in windows, doors, cladding and facades in the construction sector, which has benefited from the economic recovery in China with the RMB4 trillion stimulus package implemented from 2008. Fixed asset investments grew at a CAGR of 26.2% from 2005 to 2009. The growth momentum is expected to continue with overall economic growth and growing urbanization, as well as increases in disposable income per capita in China. According to Antaike, over 350 million additional population in China will be domiciled in urbanized areas by 2025. Combined with the structural change of consumer spending behavior, this will support China's aluminum demand growth in the long term.

Automotives

The strong economic growth, improving road transportation infrastructure and the enhanced consumer purchasing power have been driving up demand for automotives in China. Total vehicle ownership in China grew at a CAGR of 15.2% from 2005 to 2009, and China surpassed the United States to become the world's largest auto producer in 2009. However, China's car ownership on a per capita basis is still much lower compared to the developed countries. Furthermore, higher energy prices and more stringent regulation on carbon emissions will encourage a more extensive use of lightweight metals, such as aluminum, as a substitute for steel in the automotive sector. Antaike estimates the aluminum usage in China is currently less than 100 kg per vehicle, as compared to 145 kg in the developed nations. Taken together with the growing vehicle production, it is expected to further drive growth in aluminum demand in China.

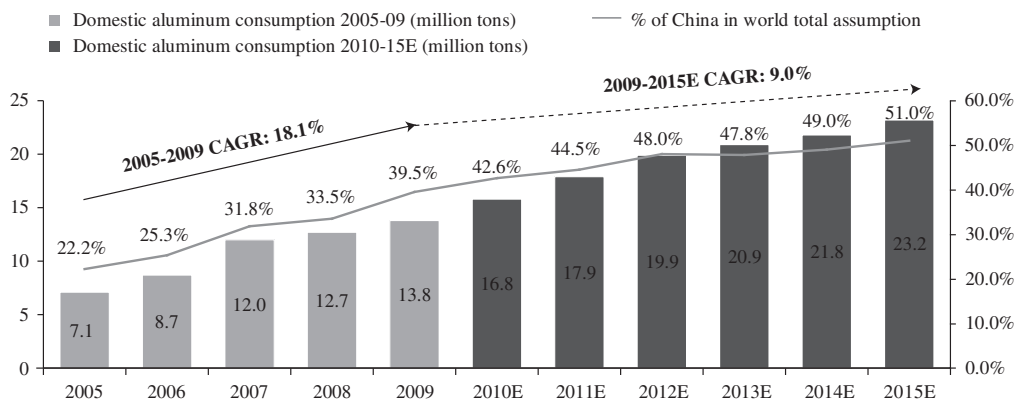
Railway transport

Aluminum alloy is widely used in the manufacturing of railcars, in particular those for the urban subway and high-speed railways. China is the world's largest railway transport market and has been rapidly developing high-speed railways as a national strategic plan. By the end of 2009, total high-speed railways

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reached 6,552 kilometers, which made China the country with the longest distance of high-speed railways. It is expected to double to approximately 13,000 kilometers by 2012 and further increase to approximately 16,000 kilometers by 2020. Meanwhile, urban subway system is currently at a rapidly developing stage, with 28 cities in China having been approved to construct subways and a total investment of RMB1,157 billion planned from 2010 to 2015.

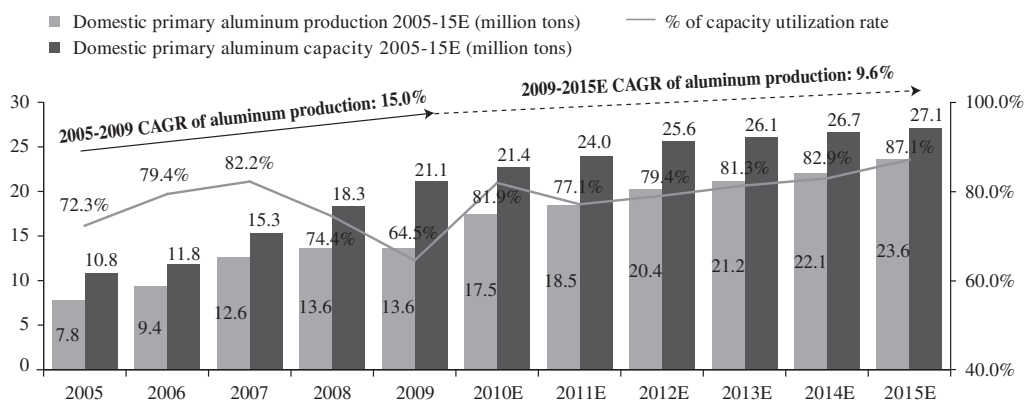
Antaika estimates that China's primary aluminum consumption will grow at a CAGR of 9.0% from 13.8 million tons in 2009 to 23.2 million tons in 2015, as shown in the chart below.



Source: Antaika

Growing domestic production

In 2001, China became the largest aluminum manufacturer in the world, surpassing the United States and Russia. Domestic production increased at a CAGR of 15.0% from 7.8 million tons in 2005 to 13.6 million tons in 2009, compared to the CAGR of 4.2% globally during the same period, while China's share of global aluminum output rose from 24.4% to 36.2% during the same period, according to Antaika. The rapid growth of aluminum production is mainly driven by domestic consumption, government support and advanced technology. As the chart below shows, Antaika expects that the primary aluminum output will increase at a CAGR of 9.6% from 2009 to 2015, exceeding the growth of capacity. As a result, capacity utilization rate is expected to remain over 75.0% going forward.



Source: Antaika

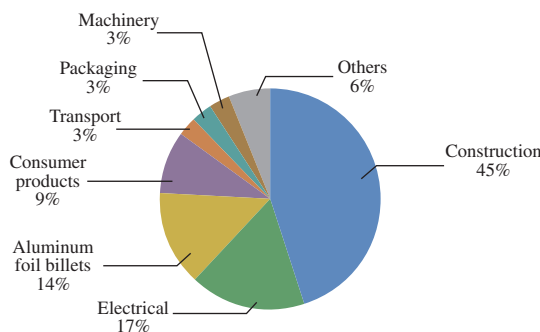
INDUSTRY OVERVIEW

There has also been a sector trend of increasing scale in terms of production capacity and smelter power in the PRC aluminum industry. Average annual production capacity per aluminum manufacturer in China increased significantly from approximately 36,000 tons in 2001 to approximately 251,000 tons as of September 2010. Meanwhile, capacity with over 320kA smelter now accounts for approximately 34.1% of total domestic aluminum capacity.

Overview of domestic downstream fabrication sector

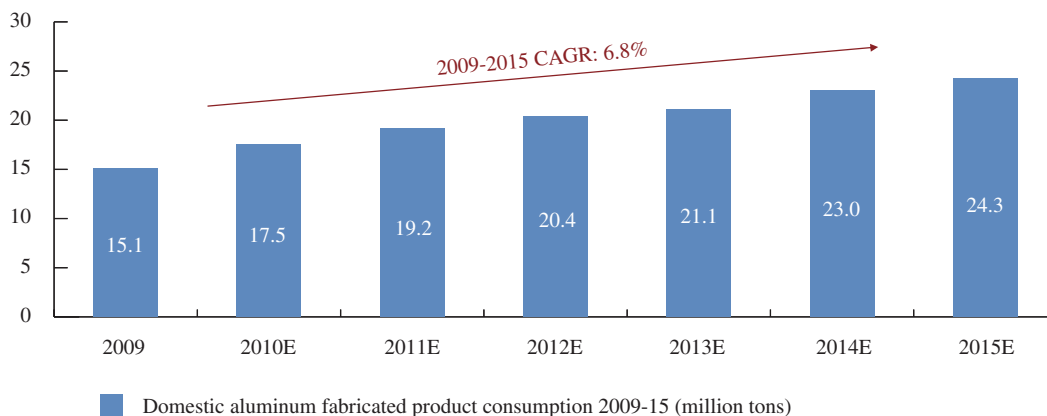
Aluminum is further processed into aluminum fabrication products through reheating, molding, casting, cutting, extruding and shaping processes. The rapid growth in recent years has made China both the largest consumer and manufacturer of aluminum fabricated products in the world since 2001 and 2005, respectively, according to Antaike. Aluminum flat-rolled products and aluminum extraction products are the two key segments in the PRC downstream fabrication sector accounting for approximately 85% of total aluminum fabrication production, according to Antaike, and are also the two downstream fabrication segments that we plan to expand in the future.

In 2009, China consumed approximately 15.1 million tons of aluminum fabricated products, according to Antaike. The chart below shows the breakdown of domestic aluminum fabricated product consumption by end-use in 2009. The main users of aluminum fabricated products are from the construction, electrical, aluminum foil billets and consumer product sectors.



Source: Antaike

Although transportation and packaging only account for a small share (accounting for 3.4% and 2.8% of current fabricated aluminum product consumption in the PRC, respectively), we believe they represent two of the key drivers of future demand growth for aluminum fabricated products, given the significant growth potentials in tin can, food packaging, automotives, high-speed railways and urban subway in China. As a result, Antaike estimates that China's aluminum fabricated product consumption will grow steadily at a CAGR of 6.8% from 2009 to 2015, as shown in the chart below.



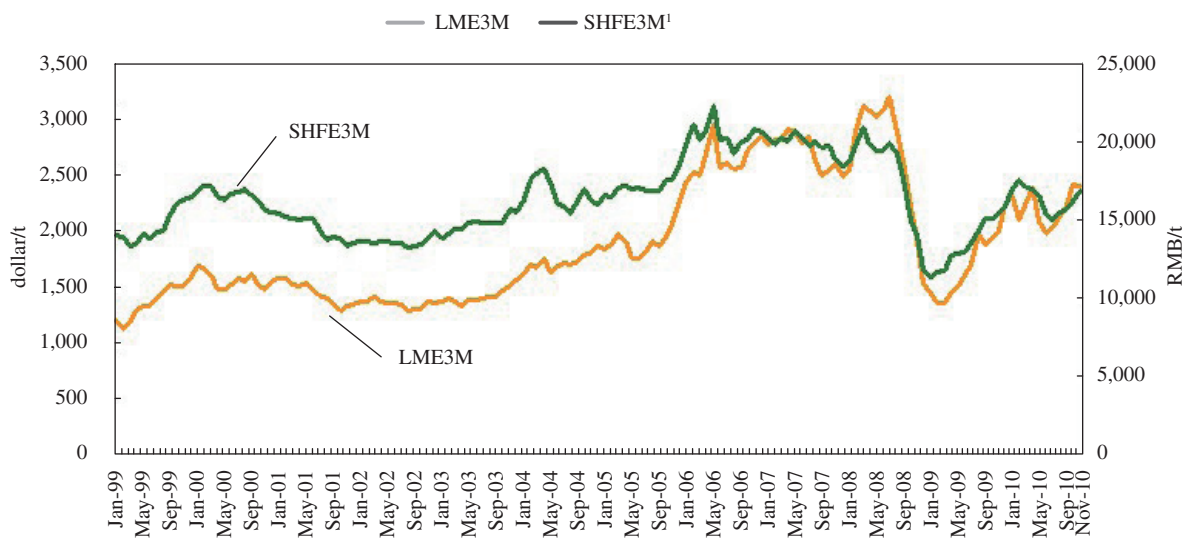
Source: Antaike

INDUSTRY OVERVIEW

PRICE

Historical price overview

Aluminum price has experienced significant fluctuations in the past. The following chart shows aluminum 3-month London Metal Exchange, or the LME, price and 3-month Shanghai Futures Exchange, or the SHFE, price from January 1999 to date. The period from 2005 to 2007 witnessed the most substantial increase in aluminum prices since the late 1980s. The rally in price was primarily driven by the emergence of China as a major consumer of aluminum and Chinese domestic demand increased by 160% between 2003 and 2008. Price continued to rise in 2008 until reaching the highest point in July 2008 of US\$3,380 per ton (3-month LME). The global financial crisis caused aluminum prices to fall sharply after the peak in July until the first quarter of 2009. Since then, aluminum price has recovered strongly and the 3-month LME price and 3-month SHFE averaged US\$1,699 per ton and RMB11,501 per ton, respectively, in 2009, and US\$2,142 per ton and RMB13,707 per ton, respectively, for the nine months ended September 30, 2010, according to Antaika. The average price of aluminum ingots labeled as A00 released by Yangtze River Non-ferrous Metals Spot Market was approximately RMB16,677 per ton, RMB14,525 per ton, RMB11,941 per ton and RMB13,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. During the same periods, the mean price of aluminum ingots labeled as A00 for Southern China market released by Nanchu Non-ferrous Metals Spot Market was RMB16,721 per ton, RMB14,564 per ton, RMB11,872 per ton and RMB13,308 per ton, respectively.



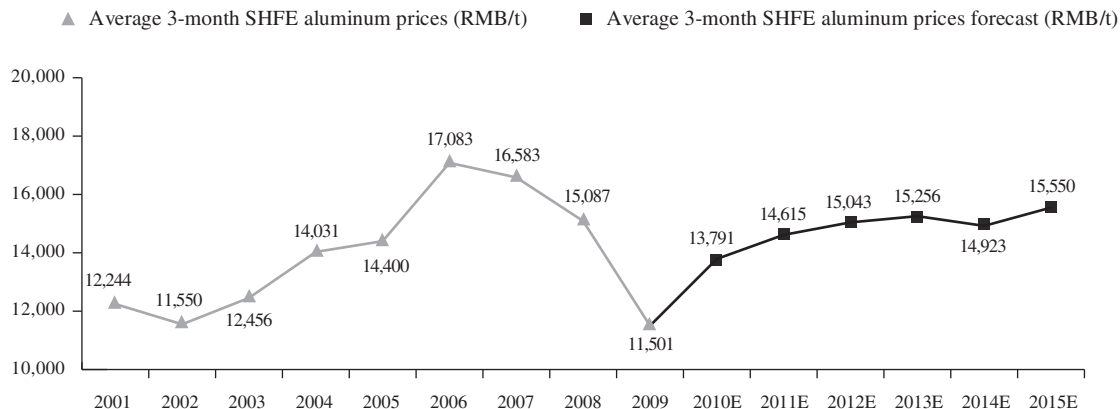
Source: Antaika

1. Inclusive of VAT.

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Price outlook

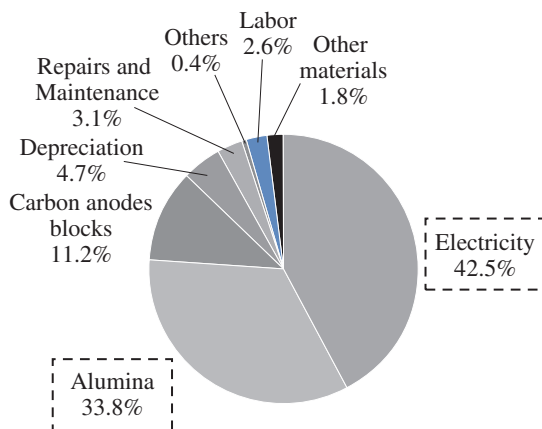
Aluminum prices in China continue to rise in the first quarter of 2010. Higher prices are primarily due to higher costs, stronger Chinese domestic demand, investment activities and metal tied up in financing contracts. We believe higher smelting costs and strong global demand growth are likely to keep aluminum prices strong in the short to medium term. According to Antaike, the 3-month SHFE aluminum prices will increase over the next five years. The chart below illustrates the historical and forecast average 3-month SHFE aluminum prices provided by Antaike.



Source: Antaike

COST OVERVIEW

Competition in aluminum industry is principally based on costs. The main costs of converting alumina into aluminum are electricity, alumina, processing, labor, and carbon anode blocks. The chart below shows the breakdown of production cost for Chinese aluminum manufacturers in 2009, in which electricity and alumina were the two largest causes for variation in production costs between aluminum manufacturers, representing 43% and 34% of total cost, respectively. Therefore, the main competitive advantage in the aluminum industry are access to stable supply and sustainable low cost of electricity and alumina. The average cost of our aluminum products sold was RMB10,627 per ton for 2009, compared with an industry average of RMB11,375 per ton in China for 2009, according to Antaike. See “Financial Information – Description of the Major Components of Our Results of Operations – Continuing operations – Cost of sales.”

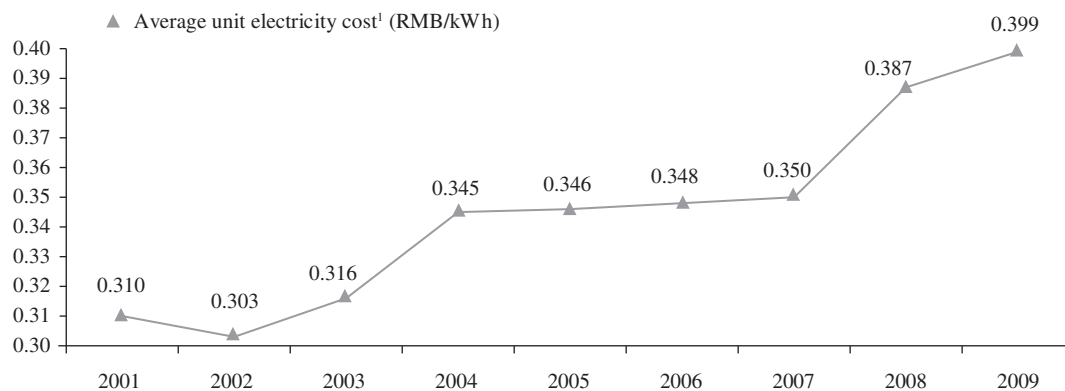


Source: Antaike

INDUSTRY OVERVIEW

Electricity cost

The electricity costs vary across different regions and aluminum manufacturers in China. The industry average unit electricity cost has been increasing since 2002. In 2009, the average unit electricity cost reached RMB0.399/kWh, as shown in the chart below.



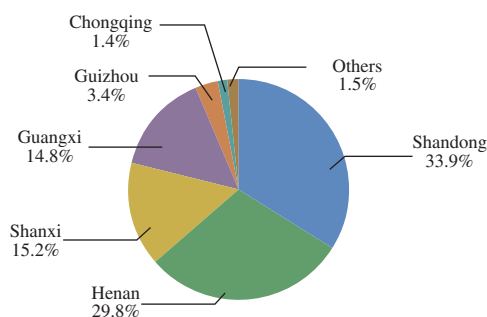
Source: Antaike

1. Inclusive of VAT.

With the rapid growth of aluminum smelting capacity in China, the electricity supply to this sector has been increasingly tight, particularly in the last decade. The electricity used in aluminum production accounted for 5.3% of China's total electricity output in 2009, as compared to that of 3.2% in 2000. Therefore, according to Antaike, the aluminum manufacturers with capacity to generate electricity in-house can enjoy secure stable supply and lower cost of electricity compared to those purchasing electricity externally. In 2009, aluminum manufacturers representing approximately 45.8% aluminum capacity in China owned power plants. The electricity price is largely linked with the price of coal. According to Antaike, the average price of coal quoted by Qinhuangdao Shanxi quality mix was RMB403 per ton, RMB631 per ton and RMB519 per ton in China for 2007, 2008 and 2009, respectively.

Alumina cost

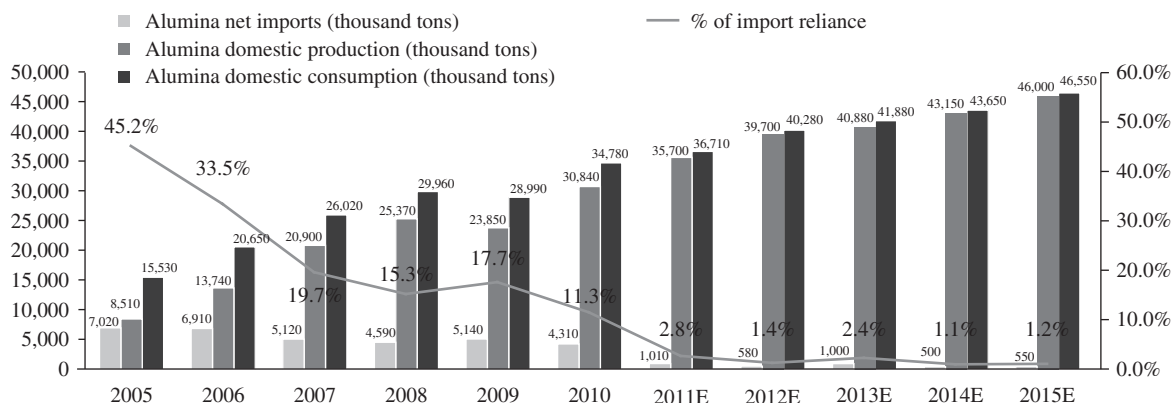
Alumina is another major cost to aluminum production. According to Antaike, China had total annual alumina production capacity of 34.8 million tons by the end of 2009 while the actual alumina domestic production in 2009 amounted to 23.9 million tons. The major alumina manufacturers are located in the Shandong, Henan, Shanxi and Guangxi provinces, among which Shandong and Henan are China's largest alumina producing provinces, representing 33.9% and 29.8% of China's total capacity in 2009, respectively. The geographical distribution of the alumina production capacity is shown in the chart below.



Source: Antaike

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In 2009, China was still a net importer of alumina, with net import of 5.1 million tons, accounting for 17.7% of total domestic aluminum consumption of the same period, which was because certain aluminum producers chose to import alumina based on considerations such as price, their proximity to seaports, product quality, long-term contracts and other factors that made import of alumina more favorable to them. The main countries China imports from are Australia and India. According to Antaika, as domestic alumina manufacturing capacity is expected to continue to increase, China's reliance on import is expected to decrease going forward. The chart below shows the supply and import dynamics of alumina in China.



Source: Antaika

According to Antaika, the average prices of alumina produced domestically in China were RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively and the average import price of alumina in China was US\$385 per ton, US\$387 per ton, US\$254 per ton and US\$343 per ton during the same periods.

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COMPETITION LANDSCAPE

As of September 30, 2010, there were a total of 78 aluminum manufacturers in China, according to Antaike. They are located in 22 provinces, with Henan, Shandong and Inner Mongolia as the three largest producing provinces, accounting for 20.6%, 16.3% and 11.2% of domestic capacity as of September 30, 2010, respectively. The following chart sets forth the top ten aluminum manufacturers in terms of aggregate designed annual aluminum production capacity as of September 30, 2010 in China based on a report issued by Antaike, according to which we were the fifth largest aluminum manufacturer.

Top ten aluminum manufacturers in China

Rank	Company	Designed annual production capacity as of September 30, 2010 (thousand tons per annum)	Nature of Ownership
1	Group 1	4,000	State-owned
2	Group 2	1,955	State-owned
3	Group 3	1,460	Private
4	Group 4	920	State-owned
5	Our Group	916	Private
6	Group 5	900	Private
7	Group 6	860	State-owned
8	Group 7	840	Private
9	Group 8	640	State-owned
10	Group 9	556	Private
Total		13,047	

Source: Antaike

As of September 30, 2010 these ten manufacturers had an average designed annual production capacity of approximately 13.0 million tons and accounted for an aggregate of approximately 61.0% of China's domestic capacity. The table below shows the breakdown of aluminum manufacturers by production capacity as of September 30, 2010. The aluminum industry has historically been dominated by large state-owned enterprises. However, private players, such as our Group, have gradually expanded their market share.

Breakdown of aluminum manufacturers by designed capacity (as of September 30, 2010)

Designed Annual Production Capacity (thousand tons per annum)	Number of Companies	% of Total Capacity in China
< 200	58	25.2%
> 200 and < 500	10	13.8%
> 500	10	61.0%
China	78	100.0%

Source: Antaike

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In May 2009, the Non-ferrous Metals Industrial Restructuring and Revitalization Plan (有色金屬產業調整和振興規劃) was issued by the State Council as part of a national initiative to strengthen and streamline the development of the aluminum industry for the period from 2009 to 2011. The plan imposes strict restrictions on expansion of upstream aluminum capacity. In principle, China will not approve further construction or expansion of upstream aluminum smelting capacity from 2009 to 2011. The plan also sets forth a target of increasing the proportion of production by top 10 aluminum manufacturers to 70% in 2011. Furthermore, according to the Notice to Further Strengthen the Elimination of Smaller Capacities 《關於進一步加強淘汰落後產能工作的通知》 issued by the State Council in February 2010, all production capacity with smelter working current intensity of 100 kA and below will be phased out by the end of 2011.

Our existing production lines are equipped with “pre-baked” smelters with working current intensity of 240 kA and 320 kA and as such are unaffected by the aforementioned policy to phase out smaller production capacity. In addition, our Binzhou Manufacturing Base Phase III will utilize essentially the same production techniques as our production lines at Phase I and Phase II. See “Business – Our Production Facilities.” As such, we believe that the aforementioned policies will not have any material impact on the operations of our Group. Furthermore, we believe that these policies will help to limit the addition of new capacity and improve the current over-capacity situation. In the long run, we believe the aforementioned policies will promote healthy and sustainable development of the domestic aluminum industry and thus will be beneficial for us.

The PRC governmental authorities have promulgated a series of policies on the aluminum industry recently, including the Opinions on Curbing Excess Capacity in Some Industries and Redundant Construction for the Healthy Industrial Development (關於抑制部分行業產能過剩和重複建設引導產業健康發展的若干意見) dated as of September 26, 2009 issued by the NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land Resources, the Ministry of Environmental Protection, the People’s Bank of China, the General Administration for Quality Supervision and Inspection, China Banking Regulatory Commission and CSRC, and the Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Some Industries through Financial Services (關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見) promulgated on December 22, 2009 by the People’s Bank of China, China Banking Regulatory Commission, CSRC and China Insurance Regulatory Commission, or the Policies. The Policies are aimed at restricting the investment in industries with excess production capacity, including production of electrolytic aluminum. The restrictions set out in the Policies have three main aspects: (i) the strict implementation of entry standards and no new production capacity will be approved in principle from 2009 to 2012; (ii) the strict examination and supervision of environmental consequences and land use for such projects; and (iii) the prohibition of financial support from financial institutions for the projects which do not comply with and operate without the requisite approvals. Our Group’s annual designed production capacity of approximately 156,000 tons of electrolytic aluminum was approved prior to the Policies’ coming into effect. In particular, (i) on June 18, 2001, the Binzhou Plan Commission and the Foreign Trade and Economic Commission jointly approved our annual production capacity of 30,000 tons of electrolytic aluminum; (ii) on July 20, 2001, the Binzhou Economic and Trade Commission approved our project aimed at attaining an annual production capacity of 26,000 tons of electrolytic aluminum; and (iii) on January 10, 2005, the Shandong NDRC confirmed our annual production capacity of 100,000 tons of electrolytic aluminum passed the nationwide review of fixed-assets investments launched by the State Council in 2004 and approved its construction. In addition, on August 23, 2006, Binzhou NDRC confirmed that our aggregate annual production capacity of 156,000 tons of electrolytic aluminum have all passed the aforesaid nationwide review of fixed-assets investments, and approved the commencement of operation of all of our electrolytic aluminum production lines. As advised by our PRC legal advisors, Zong Heng Law Firm, all of our production lines of electrolytic aluminum have been approved by the competent governmental authorities according to the applicable PRC laws at the relevant time. Zong Heng has further advised that our Group has duly obtained the requisite approvals in respect of environmental protection and land use right for such project, and such project is in compliance with the relevant industry policies. In addition, our Group is primarily engaged in the production of aluminum alloy products, and as confirmed by the local government authorities, such business is not classified as production of electrolytic

INDUSTRY OVERVIEW

aluminum. Therefore, it does not fall within the scope of the businesses covered by the Policies and our Group is not subject to the restrictions set out therein.

Our PRC legal advisors, Zong Heng Law Firm, have advised that our existing production lines and production lines currently under construction have obtained proper approvals of and completed necessary project filing with relevant government authorities. Our Directors believe that the Policies do not have any material adverse impact on the operation of our Group. See “Regulation Overview – Entry Conditions and Industry Policies.”

Competition in the Aluminum flat-rolled Products and Aluminum Extrusion Products Segments

Precise aluminum products are high value-added aluminum products, mainly including aluminum cans; high-grade aluminum foil and other high-grade aluminum flat-rolled products, and seamless pipes and other aluminum extrusion products. According to Antaika, there were approximately 130 aluminum sheets and cords manufacturers and 135 aluminum foils manufacturers in China as of September 30, 2010, with total production capacities of 5,937,000 and 2,200,000 tons per annum, respectively. The two tables below list out the top five aluminum sheets and cords manufacturers and top five aluminum foils manufacturers in China.

Top five aluminum sheets and cords manufacturers in China

Company	Designed capacity as of September 30, 2010 (thousand tons per annum)	Nature
Group 1	979	State-owned
Group 2	225	Private
Group 3	200	Private
Group 4	155	Private
Group 5	140	Private
Total (% of China)	1,699 (28.6%)	

Source: Antaika

Top five aluminum foils manufacturers in China

Company	Designed capacity as of September 30, 2010 (thousand tons per annum)	Nature
Group 1	130	Private
Group 2	85	Private
Group 3	75	Private
Group 4	70	State-owned
Group 5	65	State-owned
Total (% of China)	425 (19.3%)	

Source: Antaika

INDUSTRY OVERVIEW

For aluminum extrusion products, as of September 30, 2010, there were approximately 750 manufacturers in China with a total production capacity of 9,700,000 tons per annum, according to Antaike. The table below lists out the top five aluminum extrusion product companies in China.

Top five aluminum extrusion product manufacturers in China

Company	Designed capacity as of September 30, 2010 (thousand tons per annum)	Nature
Group 1	590	Private
Group 2	250	Private
Group 3	210	Private
Group 4	160	Private
Group 5	150	Private
Total (% of China)	1,360 (14.0%)	

Source: Antaike

We understand that there are a number of barriers to enter into the aluminum industry, such as substantial capital expenditure requirement, time required to construct aluminum smelters, availability of low-cost energy supplies and raw materials, government restrictions on expanding aluminum smelting capacity until 2011, time and efforts to establish relationship with downstream customers and proximity to end-use markets.

OVERVIEW OF SHANDONG ALUMINUM INDUSTRY AND MOLTEN ALUMINUM ALLOY

Shandong Aluminum industry

Shandong Province, located on China's eastern coast, is one of the most important regions of Chinese aluminum industry. As of September 30, 2010, it had a designed aluminum production capacity of approximately 3.5 million tons, which made it the second-largest aluminum production base in China, accounting for approximately 16.3% of total domestic capacity. In addition, Shandong Province is China's largest alumina supply base, with an annual capacity of approximately 11.8 million tons in 2009, accounting for 33.9% of domestic alumina capacity.

Shandong Province is also China's third-largest manufacturing base of downstream aluminum fabricated products, and manufactured approximately 1.5 million tons, or 10.8% of China's total production as of September 30, 2010.

As of September 30, 2010, there were 13 aluminum manufacturers in Shandong Province. The three largest manufacturers accounted for approximately 79.4% of total designed annual capacity in Shandong Province. The table below sets forth the top five aluminum manufacturers in Shandong Province by designed annual production capacity.

INDUSTRY OVERVIEW

Top five aluminum manufacturers in Shandong Province

Company	Designed annual capacity as of September 30, 2010 (thousand tons)
Shandong Group 1 ⁽¹⁾	1,300
Our Group	916
Shandong Group 2	556
Shandong Group 3	232
Shandong Group 4	141
Shandong Province	3,490

Source: Antaike

Note:

- (1) Shandong Group 1 also has a production capacity of 160,000 tons per annum outside Shandong Province. Its total capacity is 1,460,000 tons per annum and is referred to as Group 3 in the table headed “Top ten aluminum manufacturers in China” under “Industry Overview – Competition Landscape”.

Our production facilities are strategically located in Zouping County, one of the main aluminum production bases in Shandong Province. There are two aluminum manufacturers in Zouping County, Zouping Aluminum Co., Ltd. and us, with a total designed annual capacity of 1,057 thousand tons per annum as of September 30, 2010, according to Antaike. We represented approximately 26.2% and 86.7% of total designed annual capacity in Shandong Province and Zouping County, respectively, as of September 30, 2010. As such, our Directors believe that we have a dominant market position in Zouping County.

Overview of molten aluminum alloy

Molten aluminum alloy refers to a red and yellow hot liquid, in which aluminum is the predominant metal, while combined with copper, zinc, manganese, silicon, magnesium or other materials. It is an important material for fabricating aluminum products and is directly transported to the nearby manufacturing site for further processing. As the temperature needs to be maintained at 750°C to 900°C level to keep it in liquid form during delivery, Antaike estimates that safe delivery distance for molten aluminum alloy is within 30 kilometers. Compared to aluminum ingots, molten aluminum alloy has a number of key benefits:

Reduction of energy consumption and waste gas emission

Because there is no need to mold or re-smelt molten aluminum alloy before it is processed into downstream aluminum products, it offers significant savings of energy and electricity. It also benefits the overall environment through reducing the emission of carbon dioxide and waste gas during the re-melting process.

Cost saving

Molten aluminum alloy saves molding costs, and associated energy, labor, storage and other relevant costs for producers. Customers also benefit from saving the energy cost of melting aluminum alloy ingots for further processing, as well as labor and storage costs. Antaike estimates the overall cost benefits for customers to be approximately RMB500 per ton.

REGULATION OVERVIEW

This section summarizes the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our aluminum production manufacturing and sales in the PRC and the relevant environmental protection, taxation, labor and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

ENTRY CONDITIONS AND INDUSTRY POLICIES

The Regulation on Entry Conditions (鋁行業准入條件) (the “Regulation”) was promulgated by the NDRC and came into force on October 29, 2007. The Regulation applies to all enterprises involved in bauxite mining, aluminum smelting and aluminum processing in the PRC, and sets out certain conditions that must be satisfied by any enterprise for entering the aluminum industry, including, among other things, conditions with respect to the enterprise’s scale of operation, technical processes, facilities, consumption of energy and resources, environmental protection and production safety.

Newly built aluminum-processing projects must employ continuous processing techniques such as continuous roll-casting and hot rolling. Such techniques embody high levels of efficiency and automation, advanced technology, good product quality and high comprehensive yield rates. The use of processes, such as “the dance duet,” made by rolling machine production (“二人轉”式軋機生產工藝) is strictly prohibited.

For proposed bauxite mining, aluminum smelting and newly-built and renovated aluminum processing projects which are not in compliance with the entry conditions, the investment administration authority should not approve the construction of such projects, the land and resources authority should not approve the land use application, the environment protection authority should not approve the environmental impact assessment report, financial institutions should not provide credit support, and electricity administration authority should not supply power.

With respect to the production capacity and technical processes, the Regulation is only applicable to newly-built and renovated aluminum processing projects that came into operation after the promulgation of the Regulation on October 29, 2007. We confirm that our production lines which came into operation after such date and the production lines which we intend to build using the proceeds from the Global Offering are in accordance with the Regulation. See “Industry Overview – Competition Landscape” for further information.

According to the Notice of Guiding Opinions on Intensifying Structural Adjustments of the Aluminum Industry (關於加快鋁工業結構調整意見的通知) issued by, among others, the NDRC, Ministry of Finance, Ministry of Land Resources (Fa Gai Yun Hang [2006] No. 589), as well as the Plan to Adjust and Reinvigorate Non-ferrous Metal Industries (有色金屬產業調整和振興規劃), issued by the General Office of the State Council in January 2009, the state government encourages aluminum production which is of high efficiency, low cost, low energy consumption, short processing cycle and is environmentally friendly. In addition, it encourages developing high value-added aluminum products and calls for enhanced stability, reliability and cost reduction in the aluminum production. The foregoing industry policies are intended to promote the integration of related businesses and development of high manufacturing standards at approved industrial bases, thereby improving their competitiveness.

Pursuant to the requirements of the Guiding Opinions on Further Improvement in Financial Services Support for Key Industries and Adjustment Revival and Control of Industries with Excess Capacity (關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見) (the “Guiding Opinions”), no credit support will be provided to projects that do not comply with the industry policies and the Regulation or those that do not meet the requirements of technology or capital adequacy. The enterprises or projects which are not in compliance with the Guiding Opinions and the Regulation, or industries that have been stated to have overcapacity, are prohibited from obtaining financial support through issuing new corporate bonds, short-term debentures, mid-term bills, convertible bonds and shares or an increase in the share capital.

REGULATION OVERVIEW

The government of Zouping County approved the Decision on Establishment of Large-scale Aluminum Industry Cluster in Zouping Economic Development Zone, or the Decision (關於開發區建設國內大型鋁產業集群基地的決定), on January 8, 2009, pursuant to which Zouping County decided to establish and develop a large-scale aluminum cluster in Zouping Economic Development Zone. The Decision involves plans to develop the local aluminum industry cluster by taking advantage of the existing large number of aluminum industry enterprises in Zouping County and is in line with the energy-saving and emission reduction requirements of the State. In order to achieve the aforesaid goal, Zouping Economic Development Zone shall take steps to ensure steady and sufficient supply of alumina within the cluster, and make full use of the existing energy advantage of Gaoxin Aluminum & Power, and shall reorganize and consolidate the alumina production capacity within the cluster.

The People's Government of Zouping County has prepared the Development Plan of Aluminum Industry Cluster in Zouping County (鄒平縣鋁產業集群發展規劃) (the "Plan"), which was approved by the People's Government of Binzhou City on May 7, 2010. The overall objective of the Plan is to give effect to the existing aluminum industry advantage of Zouping County, and to develop the aluminum industry cluster into the most profitable cluster with the longest industrial chain in Zouping County and with the most advanced technology and the best effect of energy-saving and emission-reduction. The Plan encourages companies to adopt business model with the effect of energy-saving and emission-reduction. It states that future aluminum-processing projects shall be planned and developed to allow aluminum processing enterprises to source sufficient raw materials within the cluster. The Plan identifies certain companies and aluminum industry projects with relatively large production scale which are in compliance with laws, relevant policies and the objective of the Plan, and confirms such companies or projects are entitled to enjoy the encouragement policy under the Plan. All of our domestic subsidiaries and our existing projects and projects under construction are identified as the encouraged companies or projects pursuant to the Plan.

Our currently operating production projects with an aggregate designed annual production capacity of 760,000 tons of aluminum products located at our Weiqiao Manufacturing Base and Zouping Manufacturing Base were granted Certificates for the Registration and Filing of Construction Projects in Shandong Province on December 26, 2006, July 20, 2007 and July 17, 2008 respectively. Our project under construction with an aggregate designed annual production capacity of 310,000 tons of aluminum products located at our Binzhou Manufacturing Base Phase I was granted Certificates for the Registration and Filing of Construction Projects in Shandong Province on February 17, 2009 and December 15, 2009. Our projects for Binzhou Manufacturing Phase II were granted Certificates for the Registration and Filing of Construction Projects in Shandong Province on December 2, 2010.

According to the Confirmation Letters for the Aluminum Products Projects of Shandong Hongqiao and its Subsidiaries issued on May 27 and June 24, 2010 by the competent authorities of Binzhou municipal government and Shandong provincial government, respectively, our existing projects and projects under construction have obtained approvals of and/or completed project filings with relevant government authorities in accordance with the then applicable laws and industrial policies. Our PRC legal advisors, Zong Heng Law Firm, have advised us that such local authorities are competent authorities to issue the aforesaid confirmations, that our existing projects and projects under construction have obtained proper approvals of and/or completed necessary project filings with relevant government authorities, and that our PRC subsidiaries are not required to obtain any further approval under relevant laws and policies. Moreover, based on the aforesaid confirmations, our PRC legal advisors, Zong Heng Law Firm, have advised us that our PRC subsidiaries are not classified as those subject to the restrictions on prohibition of credit and financial support under the Guiding Opinions, and the Guiding Opinions do not have any material adverse impact on the operations of our PRC subsidiaries.

REGULATION OVERVIEW

Based on the foregoing, our Directors believe that as at the Latest Practicable Date, our business operations comply with relevant government policies, and the policies summarized above will not have material adverse impact on our operations. However, both our PRC legal advisors and we are of the view that, if the relevant regulatory authorities change their understanding or enforcement of relevant policies in the future, we may be required to obtain further approvals or to meet other additional requirements, as a result of which we may be required to incur a significant level of expenditure for the purposes of, including but not limited to, upgrading our equipment, technology and production process. See “Risk Factors – Risks Relating to Our Industry – Future changes in laws, regulations or enforcement policies in China could adversely affect our business.”

ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated and came into force in 1989, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The State Environment Protection Administration of the PRC (中華人民共和國國家環境保護總局), which has been renamed as the Ministry of Environment Protection of the PRC (中華人民共和國環境保護部), is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste discharged in the PRC.

According to the Environmental Protection Law of the PRC, where the construction of a project may cause any pollution to the environment, an environmental impact assessment must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the Ministry of Environment Protection of the PRC shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending on the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and terminate the business operation; imposition of administrative sanctions or investigation and imposition of criminal liabilities on the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

According to the Environmental Protection Law of the PRC and other relevant laws and regulations, the construction, renovation and extension of all aluminum-processing projects must strictly conform to all aspects of the environmental impact assessment system. Production and sales activities may only be conducted after the relevant project has been inspected and approved and the requisite Permit for the Discharge of Pollutants has been issued.

In addition, in the production and operation process, aluminum-processing enterprises must comply with the following laws and regulations related to environmental protection: the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); the Law of the PRC on the Prevention and Control of Pollution from Solid Wastes (中華人民共和國固體廢物污染環境防治法); the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境雜訊污染防治法) and the Water Law of the PRC (中華人民共和國水法).

REGULATION OVERVIEW

As advised by our PRC legal advisors, Zong Heng Law Firm, our aluminum production projects which are either operating or are under construction have obtained the approvals from the relevant environmental protection authorities. In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted advanced technologies and equipment to prevent and reduce pollution. All of our construction and extension projects comply with the relevant environmental impact assessment procedures for construction projects and have undergone inspection and have been approved by the relevant environmental protection authorities. We have reported to and registered with the relevant environmental protection administration departments for pollutants discharge and have obtained the Permit for the Discharge of Pollutants (the Pollutants Discharge Permit held by Shandong Hongqiao is valid up to February 8, 2013. The Pollutants Discharge Permit held by Aluminum & Power is valid up to May 31, 2012. The Pollutants Discharge Permit held by Zhengtong is valid up to February 8, 2013). As of the Latest Practicable Date, we have never been imposed any administrative penalty for breaching environmental protection laws and regulations.

INCOME TAX

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), (the “Income Tax Law”), promulgated by the National People’s Congress on March 16, 2007, a uniform income tax rate of 25% will be applied towards foreign investment enterprises and domestic enterprises.

Pursuant to the Income Tax Law and its implementation regulations, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived from such organization or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, its income derived in the PRC will be subject to enterprise income tax.

A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in the PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), (the “Tax Arrangement”), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect of the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counter-parties qualified to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance with such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese resident companies; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

REGULATION OVERVIEW

Our PRC subsidiaries shall pay taxes to the competent tax authorities in accordance with the Income Tax Law. Currently, our PRC subsidiaries are not subject to any favorable treatments regarding Enterprise Income Tax and the applicable tax rate is 25%. The withholding tax rate with respect to the payment of dividends by our PRC subsidiaries to Hongqiao Hong Kong will be 5% after duly approved and filed with competent tax authority. We are subject to calls for tax payment and penalties if we fail to fulfill our tax liabilities. As of the date of Latest Practicable Date, we have not been imposed any administrative penalty due to violation of tax laws and regulations. We have obtained Tax Registration Certificates according to the relevant laws and regulation and there is no expiry date in respect of those certificates.

VAT

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例) and its implementation regulations as amended on November 5, 2008 by the State Council and implemented since January 1, 2009, unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%. Our PRC subsidiaries are required to pay the VAT for sale of aluminum products. Currently, our PRC subsidiaries are subject to a VAT rate of 17% on the sales revenue of our products in general (13% for the steam sold by Aluminum & Power).

URBAN MAINTENANCE AND CONSTRUCTION TAX AND EDUCATION SURCHARGE

Pursuant to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), effective from December 1, 2010, the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax (《城市維護建設稅暫行條例》), promulgated in 1985, the Provisional Rules on Levy of Education Surcharge (《徵收教育費附加的暫行規定》), promulgated in 1986, and other regulations and rules promulgated by the State Council and other competent authorities of the relevant financial and tax authorities shall apply to foreign-invested enterprises, foreign enterprises and individual foreigners.

Provisional Regulations of the PRC Urban Maintenance and Construction Tax (《城市維護建設稅暫行條例》) released on February 8, 1985, any entity and individual that pays product tax, value added tax, and business tax shall pay urban maintenance and construction tax simultaneously based on the amount of product tax, value added tax, and business tax actually levied on such entity and individual. If a taxpayer is located in the urban areas, the rate is 7%; if a taxpayer is located in counties and towns, the rate is 5%; and if the taxpayer is located in places other than urban areas, counties or towns, the rate is 1%.

Pursuant to Provisional Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》) promulgated on July 1, 1986, revised on 20 August 2005, effective as from October 1, 2005, the tax rate of the education surcharge is 3% based on the amount of the value-added tax, business tax, consumption tax actually levied on all entities and individuals and the education surcharge shall be paid with the foregoing taxes simultaneously.

LABOR LAW AND LABOR CONTRACT LAW

Pursuant to the Labor Law of the PRC (中華人民共和國勞動法) (the “Labor Law”) effective as of January 1, 1995, laborers are entitled to equality in employment and right to choose occupations, right to obtain remuneration, right to rest and enjoy holidays, rights to be provided with safety workplace and health protection, right to receive vocational skill training, right to enjoy social insurance and social benefits, right to submit labor disputes for handling as well as other entitlements prescribed by law. Laborers shall fulfil their labor tasks, improve their vocational skills, follow rules on occupational safety and health, and observe labor discipline and professional ethics. Employing units shall set up and perfect regulations and systems according to law and ensure that laborers shall have the right to labor and perform their obligation.

REGULATION OVERVIEW

Pursuant to the Labor Contract Law of the PRC (中華人民共和國勞動合同法) (the “Labor Contract Law”) effective as of January 1, 2008 and its implementation regulations, labor contracts shall be entered into if labor relationships are to be established between the employers and the laborers. The employers cannot require the laborers to work beyond the time limit and shall provide the wages which are not lower than local standards on minimum wages to the laborers in timely manner. The employers shall establish and perfect its system for labor safety and sanitation, strictly abide by rules and standards on labor safety and sanitation, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall meet such standards. The employers shall provide laborers with safe and sanitary work environment meeting the State’s stipulations and necessary equipment for labor protection.

Our PRC subsidiaries are required to protect their employees’ labor rights in accordance with the Labor Law. These members shall enter into labor contracts with their employees, and pay salaries, provide social insurance and safety and healthy work conditions and guarantee their employees’ rights for holiday in accordance with the contractual commitments. We are required to ensure adequate expenditures in order to comply with the above requirements on labor employment. If we fail to safeguard the legitimate rights of our employees to, among other things, wages, rest and holidays, or if we fail to enter into any labor contracts in writing with any employees according to the Labor Contract Law and comply with the terms of the respective labor contracts, we would be subject to penalties by competent authorities, including orders for correction and fines, and we may be obliged to compensate the respective employees. Our financial conditions and operating results may be adversely affected accordingly. As of the Latest Practicable Date, we had not been subject to any administrative penalties due to violation of the Labor Law, the Labor Contract Law and related regulations.

We are required to obtain Social Insurance Registration Certificate for the provision of social insurance to our employees. Shandong Hongqiao has obtained Social Insurance Registration Certificate which is valid till February 24, 2014. Aluminum & Power has obtained Social Insurance Registration Certificate which is valid till February 24, 2014. Zhengtong has obtained Social Insurance Registration Certificate which is valid till November 22, 2015.

PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (中華人民共和國安全生產法) (the “Production Safety Law”), effective from November 1, 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that does not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipment that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations as well as operation procedures of the relevant units regarding safety.

We are required to commit a certain amount of expenditures to comply with the above production safety regulations. Should there be any industrial accidents due to non-compliance of the Production Safety Law and related regulations, we may be subject to penalties imposed by competent authorities and liable to any compensation arising therefrom. Our goodwill in the market may also be adversely affected. On the other hand, continuous compliance with the requirements of production safety will reduce the operating risks of our Group and will be conducive to the enhancement of our operating results. We have adopted all necessary measures to ensure the production safety in the workplace and we undertake to comply with the relevant laws and regulations on production safety.

REGULATION OVERVIEW

As advised by our PRC legal advisors, Zong Heng Law Firm, our domestic subsidiaries are not required to obtain further permits with regard to production safety.

FOREIGN EXCHANGE

Pursuant to the Regulations on the Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理條例) as amended on August 1, 2008 by the State Council and implemented since August 5, 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and terms related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be made based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or transferred to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals propose to make onshore direct investments, they shall complete registration with the foreign exchange administrative authority upon approval of the relevant competent authorities. As a foreign-invested enterprise, Shandong Hongqiao has obtained foreign exchange registration certificate which did not specify any expiry date.

If onshore institutions or onshore individuals propose to make an offshore direct investment or offshore issuance or trading of securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department under the State Council. The foreign currency and the RMB converted from foreign currency under the capital accounts should be applied as approved by the relevant foreign exchange administration governmental authorities. Our PRC subsidiaries are required to abide by the relevant regulations on administration of foreign exchange. As of the Latest Practicable Date, our Company has not been imposed of any administrative penalties due to violation of foreign exchange laws and regulations.

Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular 75, promulgated on October 21, 2005 by the State Administration of Foreign Exchange of the PRC and implemented since November 1, 2005, domestic residents engaged in equity financing and round-trip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, share transfer or exchange, merger or division, investment with long term equity or credits, provision of guaranty to another party and is not involved in any round-trip investment, the domestic resident shall, within 30 days from the major event, apply to the foreign exchange office for modification or archival filing of the foreign exchange registration of the overseas investments. As a domestic resident, our ultimate controller Mr. Zhang, is required to handle foreign exchange registration of overseas investments in accordance with the Circular 75, as well as go through procedures of modification as required.

As advised by our PRC legal advisors, Zong Heng Law Firm, Mr. Zhang has completed procedures of foreign exchange registration with the SAFE Shandong Province Bureau according to the Circular 75.

REGULATION OVERVIEW

LAW OF WHOLLY FOREIGN-INVESTED ENTERPRISES

Pursuant to the Law on Wholly Foreign-invested Enterprises of the PRC (中華人民共和國外資企業法) as amended and implemented by the Standing Committee of the National People's Congress on October 31, 2000 and the Rules for the Implementation of the Law on Wholly Foreign-invested Enterprises of the PRC (中華人民共和國外資企業法實施細則) as amended and implemented by the State Council on April 12, 2001, investments, profits and other legal interests made by foreign investors within China, shall be protected by the PRC law; a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with the PRC tax laws as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax) until the accumulated amount reserved reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered; undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year. As a wholly foreign-invested enterprise, Shandong Hongqiao is required to comply with the regulations of the Law on Wholly Foreign-invested Enterprises of the PRC and the implementation rules in respect of the establishment and operation of its business.

PRODUCT QUALITY LAW

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) as amended by the Standing Committee of the National People's Congress on July 8, 2000 and implemented since September 1, 2000, a producer shall establish proper internal regulatory system for the management of product quality, strictly implement position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard inspections. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and other defective products that have been reported by consumers or relevant organizations. We are required under this law to produce aluminum products in accordance with the product quality standards. In case of any defective quality issues of our products, we may be subject to complaint or legal proceedings and thus be liable to compensations and resulting legal costs, as well as penalties from competent authorities. Our goodwill in the market may also be adversely affected. Our Company's financial conditions and results of operations may be adversely affected accordingly. We will be required to obtain a production license for our aluminum flat-rolled products and aluminum extrusion products to be produced in our Binzhou Manufacturing Base in the future, and those products shall also meet the specified quality standard.

HISTORY AND REORGANIZATION

INTRODUCTION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on February 9, 2010.

Our Group comprises of Hongqiao Investment, Hongqiao Hong Kong, Shandong Hongqiao, Aluminum & Power and Zhengtong, all being wholly-owned subsidiaries. Hongqiao Investment and Hongqiao Hong Kong were incorporated in the BVI and Hong Kong on February 5, 2010 and February 18, 2010, respectively. They are both investment holding companies and were incorporated for the purpose of holding our Company's interests in Shandong Hongqiao, Aluminum & Power and Zhengtong. Aluminum & Power was our major operating company during the Track Record Period, and is engaged in the manufacturing of aluminum products.

We were the fifth-largest aluminum manufacturer in China, which is the fastest growing major aluminum market in the world in terms of designed annual aluminum production capacity as of September 30, 2010, according to Antaika. Our history can be traced back to the establishment of Shandong Hongqiao, a sino-foreign joint venture, on July 27, 1994 and was held as to 60% by Chuangye Group and as to 40% by Chung Tai Development Co., Ltd., or Chung Tai, an Independent Third Party.

In September 2006, Aluminum & Power acquired from Chuangye Group certain aluminum products manufacturing facilities with an aggregate designed annual production capacity of approximately 156,000 tons. See "Business – Our Production Facilities." Aluminum & Power did not engage in the production of aluminum products before such acquisition and started the production of aluminum products thereafter.

Our management team had acquired relevant expertise and knowledge in respect of aluminum manufacturing business through (i) the operation and management of these aluminum products manufacturing facilities, (ii) our subsequent acquisition of aluminum products production facilities, (iii) construction of new aluminum products production lines, and (iv) the management expertise gained by our management team from their relevant past working experience in different positions. See "Directors and Senior Management."

In order to further consolidate our core business and to avoid any potential competition, on January 4, 2010, Shandong Hongqiao acquired relevant aluminum production facilities with an annual production capacity of 160,000 tons owned by Chuangye Group.

BUSINESS MILESTONES

Set out below are major business milestones of our Group since the establishment of Shandong Hongqiao:

July 1994	Shandong Hongqiao was established and was mainly engaged in the production and distribution of jeans (堅固尼) and yarn-dyed denim (色織布) at the time of its establishment.
December 2002	Aluminum & Power was established, the business scope of which included thermal power generation.
June 2006	Shandong Hongqiao acquired the entire equity interests of Aluminum & Power and became the sole beneficial owner of Aluminum & Power.

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September 2006	Aluminum & Power acquired from Chuangye Group the aluminum products manufacturing facilities with an aggregate designed annual production capacity of approximately 156,000 tons and started engaging in the production of aluminum products. ⁽¹⁾
April 2007	Aluminum & Power acquired from Chuangye Group the aluminum products manufacturing facilities with an aggregate designed annual production capacity of approximately 100,000 tons. ⁽²⁾
2007	The aggregate designed weighted average annual production capacity of our Group was increased to approximately 301,513 tons through our construction of new aluminum products manufacturing facilities.
2008	The aggregate designed weighted average annual production capacity of our Group was increased to approximately 601,085 tons through our construction of new aluminum products manufacturing facilities.
2009	The aggregate designed weighted average annual production capacity of our Group was increased to approximately 738,973 tons through our construction of new aluminum products manufacturing facilities.
January 2010	Shandong Hongqiao acquired from Chuangye Group the aluminum production facilities with an aggregate designed annual production capacity of approximately 160,000 tons and the aggregate designed annual aluminum products manufacturing capacity of our Group was increased to approximately 916,000 tons.
March 2010	Aluminum & Power acquired the entire equity interests of Zhengtong.
April 2010	Shandong Hongqiao obtained the ISO 9001 Certification and the ISO 14001 Certification.

Notes:

- (1) Pursuant to an asset transfer agreement dated September 28, 2006 and entered into between Aluminum & Power and Chuangye Group, Aluminum & Power acquired such assets from Chuangye Group at a consideration of approximately RMB839.2 million. The consideration and value of the subject assets were determined with reference to their appraised value as indicated in the appraisal report prepared by Zouping Jianxin Certified Public Accountants Corporation (鄒平鑾鑫有限責任會計師事務所) dated September 28, 2006. The consideration was paid by Aluminum & Power in cash in 2006.
- (2) Pursuant to an asset transfer agreement dated April 30, 2007 and entered into between Aluminum & Power and Chuangye Group, Aluminum & Power acquired such assets from Chuangye Group at a consideration of approximately RMB499.9 million. The consideration and value of the subject assets were determined with reference to their appraised value as indicated in the appraisal report prepared by Zouping Jianxin Certified Public Accountants Corporation (鄒平鑾鑫有限責任會計師事務所) dated April 30, 2007. The payment of such consideration was settled by Aluminum & Power by October 2009. Please refer to Note 35(a) to the Accountants' Report set out in Appendix I to this prospectus for the details of payment of the consideration.

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SHAREHOLDING HISTORY OF OUR PRC SUBSIDIARIES

(1) Shandong Hongqiao

Shandong Hongqiao was established as a sino-foreign joint venture on July 27, 1994 with an initial registered capital of US\$3 million and was held as to 60% by Chuangye Group and as to 40% by Chung Tai, an Independent Third Party, respectively.

On October 29, 1996, pursuant to a share transfer agreement entered into between Chung Tai and Profit Long Investment, Chung Tai agreed to transfer 40% of the equity interests in Shandong Hongqiao to Profit Long Investment. The transfer was approved by Shandong Province Binzhou District Foreign Economic and Trade Committee (山東省濱州地區對外經濟貿易委員會) on December 17, 1996.

The registered capital of Shandong Hongqiao was increased to US\$7,350,000 as evidenced by the business licence issued to Shandong Hongqiao on March 23, 1999 and the equity interests in Shandong Hongqiao were held by Chuangye Group and Profit Long Investment as to 60% and 40%, respectively. Shandong Province Binzhou District Foreign Economic and Trade Committee (山東省濱州地區對外經濟貿易委員會) approved such increase in its registered capital on March 22, 1999.

The registered capital of Shandong Hongqiao was further increased to US\$13,800,000 as evidenced by the business licence issued to Shandong Hongqiao on August 8, 2000, which was contributed by Chuangye Group as to US\$8,280,000 and by Profit Long Investment as to US\$5,520,000 in total. After such increase, the equity interests in Shandong Hongqiao remained to be held by Chuangye Group and Profit Long Investment as to 60% and 40%, respectively. Such increase in the registered capital of Shandong Hongqiao was approved by Shandong Province Binzhou District Foreign Economic and Trade Committee (山東省濱州地區對外經濟貿易委員會) on June 6, 2000. Pursuant to the capital verification report issued by Zouping Jianxin Certified Public Accountants Corporation (鄒平鑾鑫有限責任會計師事務所) on August 2, 2000, the increase in the registered capital of Shandong Hongqiao was fully paid on April 12, 2000 and July 15, 2000 by Profit Long Investment and Chuangye Group, respectively.

Having considered that Shandong Hongqiao's operational results were not satisfactory, on June 5, 2006, Chuangye Group entered into a share transfer agreement to transfer 58% equity interests in Shandong Hongqiao to Profit Long Investment for a consideration of US\$8,000,000. Pursuant to the said share transfer agreement, the consideration of US\$8,000,000 was payable immediately after the execution of the agreement. As a result of further negotiation on the payment term, the parties thereto entered into a supplemental agreement dated June 15, 2006, which provided that such consideration should be paid by Profit Long Investment before June 30, 2010. Chuangye Group agreed to extend the due date for payment of the consideration primarily due to the fact that Profit Long Investment is a related party of Chuangye Group as the then beneficial interest of the entire issued share capital of Profit Long Investment was held by Mr. Zhang, who was the chairman of board of directors and a shareholder of Chuangye Group at the relevant time. Such consideration of US\$8,000,000 was determined with reference to the then registered capital of Shandong Hongqiao and was paid by Profit Long Investment on March 10, 2010 by way of a loan from our Company, which was partly funded by a term loan facility provided to our Company by a commercial bank in Hong Kong. As Profit Long Investment and our Company were both 100% owned by Mr. Zhang and our Company had funds available at the relevant time, Profit Long Investment borrowed such funds from our Company to make the payment. In order to avoid the connected transaction implications associated with the provision of a loan by our Company to Profit Long Investment after the Listing, Profit Long Investment borrowed a loan from Profit Rich Company to repay the loan due to our Company on May 14, 2010. Profit Rich Company was a sole proprietorship of Mr. Chang Nai Chi (張乃梓), an Independent Third Party and a personal friend of Mr. Zhang. To the best knowledge of our Directors, the loan lent to Profit Long Investment by Mr. Chang Nai Chi (張乃梓) (trading as Profit Rich Company) was funded by his own resources. As advised by our PRC legal advisors, Zong Heng Law Firm, there was no mandatory requirement under the PRC laws in relation to the term of payment of the

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consideration for the aforesaid share transfer and the payment term agreed by Chuangye Group and Profit Long Investment has complied with the PRC laws and regulations. Zong Heng Law Firm has also advised us that the payment of the consideration of US\$8,000,000 has complied with the necessary approval procedures in accordance with the PRC laws and regulations and the transfer of the 58% equity interests in Shandong Hongqiao by Chuangye Group to Profit Long Investment complied with relevant PRC laws and regulations and is legal and valid.

The Bureau of Foreign Trade and Economic Cooperation of Binzhou (previous known as Binzhou District Foreign Economic and Trade Committee) (濱州市對外貿易經濟合作局) approved such share transfer on June 7, 2006. Upon completion of the above transfer, the equity interests of Shandong Hongqiao were held as to 98% by Profit Long Investment and as to 2% by Chuangye Group.

Shandong Hongqiao had been principally engaged in production and distribution of yarn-dyed denim (色織布) since its establishment until 2007. As confirmed by our Directors, it ceased to carry on such production in 2008 and 2009 due to adverse market conditions. During 2008 and 2009, Shandong Hongqiao did not engage in other businesses. As part of the business restructuring, on January 4, 2010, Shandong Hongqiao entered into an agreement with Chuangye Group, pursuant to which Shandong Hongqiao acquired the aluminum production assets with a total designed annual production capacity of approximately 160,000 tons of aluminum products from Chuangye Group at a consideration of RMB1,189.7 million. See “Business – Our Production Facilities.” As confirmed by our Directors, the construction of these aluminum product manufacturing assets was completed by Chuangye Group at the end of 2009. They had been put into operation and commenced the production of aluminum products in 2010 only after the acquisition by Shandong Hongqiao. Our Directors further confirmed that Shandong Hongqiao did not acquire these aluminum product manufacturing assets when they were under construction as it considered not practicable to acquire such facilities when they were still under construction. Shandong Hongqiao acquired these aluminum product manufacturing assets from Chuangye Group in 2010 to avoid any potential competing business to be operated by Chuangye Group. Part of the consideration for the acquisition of these aluminum manufacturing facilities was settled by the transfer of the dyeing and weaving assets owned by Shandong Hongqiao to Chuangye Group at an appraised value of RMB35.4 million. The balance of the consideration was paid in cash by Shandong Hongqiao in March 2010. The consideration and value of the subject assets were determined with reference to the appraised value of these assets as indicated in the appraisal report dated January 4, 2010 prepared by Shandong Jianxin Asset Appraisal Company Limited (山東鑾鑫資產評估有限公司). Our PRC legal advisors, Zong Heng Law Firm, have advised us that no government approval is required under the PRC laws and regulations in respect of the aforesaid transaction.

The registered capital of Shandong Hongqiao was further increased to US\$110,000,000 as evidenced by a new business licence issued to Shandong Hongqiao on March 16, 2010. After such increase, the equity interests in Shandong Hongqiao remained to be held by Profit Long Investment and Chuangye Group as to 98% and 2%, respectively. The Department of Commerce of Shandong Province (山東省商務廳) approved such increase in the registered capital of Shandong Hongqiao on March 8, 2010. Pursuant to the capital verification report issued by Shandong Jianxin Accounting Firm Company Limited (山東鑾鑫會計師事務所有限公司) on March 11, 2010, the increase in the registered capital of Shandong Hongqiao was fully paid on March 11, 2010 by way of contribution of the undistributed profits in Shandong Hongqiao by Profit Long Investment and Chuangye Group, respectively.

As confirmed by our Company, the legal and beneficial owners of the equity interests in Profit Long Investment were Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良), Independent Third Parties and two personal friends of Mr. Zhang, in equal share since its incorporation until June 2, 2006. Pursuant to the share transfer agreement dated June 2, 2006 and entered into among Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良), each of Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) agreed to transfer their respective equity interests in Profit Long Investment to Mr. Zhang. The

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parties subsequently further agreed to fix the total consideration for such transfer at US\$5,520,000 (equivalent to approximately RMB44,270,000). Such total consideration was determined with reference to the registered capital of Shandong Hongqiao at the time of such transfer as Profit Long Investment was holding 40% of the equity interests in Shandong Hongqiao at that time. The total consideration was fully paid by Mr. Zhang to Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) by July 2006. Our PRC legal advisors, Zong Heng Law Firm, have advised us that the payment of the consideration of US\$5,520,000, which was made by Mr. Zhang in Renminbi to a domestic bank account in the PRC designated by Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良), did not require any governmental approval under PRC laws and regulations.

As Profit Long Investment is a company incorporated in Hong Kong and both Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) are Hong Kong residents, Mr. Zhang was of the view that given both Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) had been the shareholders of Profit Long Investment since its incorporation and were more familiar with the legal requirements governing the operation of a Hong Kong company, they were in a better position to administer and manage the operation of Profit Long Investment. Taking into account of the aforesaid reasons, each of Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) would continue to hold the legal interest of 50% of the equity interests in Profit Long Investment on trust for and on behalf of Mr. Zhang. Accordingly, on June 2, 2006, each of Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) executed a declaration of trust in favour of Mr. Zhang to evidence the aforesaid trust arrangement taking effect on June 2, 2006. On February 23, 2010, in order to reflect the legal interest of Mr. Zhang in the equity interests of Profit Long Investment, each of Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) decided to terminate the aforesaid trust arrangement and the entire legal interest in the equity interests in Profit Long Investment was transferred to Mr. Zhang. Thereafter, Mr. Zhang held the entire legal and beneficial interests in the equity interests in Profit Long Investment.

The said arrangement was further confirmed by a statutory declaration executed by each of Mr. Chang Nai Chi (張乃梓) on April 14, 2010, Mr. Ng Tse Leung (吳子良) on April 14, 2010 and Mr. Zhang on April 15, 2010.

Our Company's PRC legal advisors, Zong Heng Law Firm, have advised us that: (i) such trust arrangement is legal, valid and enforceable under PRC laws between Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) and did not violate any laws or regulations in the PRC; (ii) there would not be any substantial legal impediment for Mr. Zhang to hold the legal interest in the equity interests in Profit Long Investment directly in 2006. Regardless of whether Mr. Zhang held the legal interest in the equity interests in Profit Long Investment directly or indirectly in 2006, including by way of trust arrangement, Mr. Zhang would be required to complete the relevant SAFE registration under the relevant PRC laws and regulations before his acquisition of Profit Long Investment. Mr. Zhang did not make the foreign exchange registration application before he became the owner of the beneficial interest in the equity interests in Profit Long Investment in June 2006 as he misunderstood that the relevant PRC laws and regulations would allow him to complete the foreign exchange registration after he became the owner of the legal interest in the equity interests in Profit Long Investment. Mr. Zhang has completed the SAFE registration as required under the relevant PRC laws and regulations in March 2010 after the termination of the trust arrangement and the entire legal interest in the equity interests in Profit Long Investment were vested in Mr. Zhang since February 2010. As advised by our PRC legal advisors, Zong Heng Law Firm, such SAFE registration was valid and legal and Mr. Zhang will not be subject to any legal risk or potential liability under the relevant PRC laws and regulations and the change of shareholder of Profit Long Investment was not required to obtain further governmental approval under PRC laws and regulations.

Our Company's Hong Kong legal advisors, Orrick, Herrington & Sutcliffe, have advised us that (i) the share transfer agreement dated June 2, 2006 and entered into among Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) constituted valid legal obligations of each of Mr. Zhang, Mr. Chang

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Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) under the applicable laws of Hong Kong; (ii) the beneficial interest in the entire issued share capital of Profit Long Investment was vested in Mr. Zhang from June 2, 2006, whereas the legal interest in the entire issued share capital of Profit Long Investment remained with Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) and was held on behalf of Mr. Zhang by Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) from June 2, 2006 pursuant to the declarations of trust mentioned above until the termination of the trust arrangement on February 23, 2010; and (iii) by not stamping the declarations of trust dated June 2, 2006 and the associated contract notes in June 2006 within the prescribed period pursuant to the Stamp Duty Ordinance (Chapter 117, Laws of Hong Kong), each of Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良) would be subject to penalty for late payment under section 9 of the Stamp Duty Ordinance (Chapter 117, Laws of Hong Kong), based on the assumptions that (i) the execution and performance of the share transfer agreement and declarations of trust mentioned above are within the capacities and powers of the parties thereto and the transactions contemplated by these documents were performed in accordance with the terms therein; (ii) none of them is insolvent or has been dissolved or declared bankrupt or committed an act of bankruptcy; and (iii) the facts in these documents are true and accurate. The Sponsor's Hong Kong legal advisors, Clifford Chance, concur with the view of our Company's Hong Kong legal advisors above. In order to opine on the above matters, our Hong Kong legal advisors, Orrick, Herrington & Sutcliffe, and the Sponsor's Hong Kong legal advisors, Clifford Chance, have taken the following steps: (i) reviewed the original share transfer agreement dated June 2, 2006 and the two original declarations of trust both dated June 2, 2006 in respect of the entire issued share capital of Profit Long Investment executed by each of Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良); (ii) participated in interviews with each of Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良), respectively, held on May 12, 2010 and November 24, 2010; (iii) reviewed documents evidencing payment of the consideration for the acquisition of the entire issued share capital of Profit Long Investment made by Mr. Zhang in the amount of US\$5.52 million at the relevant time; and (iv) reviewed the statutory declarations made by each of Mr. Zhang, Mr. Chang Nai Chi (張乃梓) and Mr. Ng Tse Leung (吳子良). As of the date of this prospectus, the stamp duty in the amount of HK\$91,220 and the penalty for late payment in the amount of HK\$912,200 has been paid to the Stamp Duty Office in respect of the consideration in the amount of US\$5.52 million for the share transfer under the share transfer agreement dated June 2, 2006.

(2) Marine Chemical

Marine Chemical was established on March 2, 2006 in the PRC as a limited liability company with an initial registered capital of RMB200 million. Upon its establishment, Ms. Zhang Yanhong (Mr. Zhang's daughter), Shandong Runbo Investment Co., Ltd. (山東潤波投資有限公司), or Runbo Investment, and Shandong Runxia Investment Co., Ltd. (山東潤霞投資有限公司), or Runxia Investment, held 51%, 29% and 20% of the equity interests in Marine Chemical, respectively. Mr. Zhang Bo (an executive Director and Mr. Zhang's son) and Ms. Zhang Hongxia (Mr. Zhang's daughter) held 75% equity interests in Runbo Investment and Runxia Investment, respectively. Mr. Wei Yingzhao and Mr. Wang Jianwei held 15% and 10% equity interests in Runbo Investment, both of whom are Independent Third Parties. Ms. Zhao Suhua and Mr. Cheng Wangbo held 15% and 10% equity interests in Runxia Investment, respectively, both of whom are Independent Third Parties. Marine Chemical has not conducted business operation since its incorporation in 2006 until 2009. Marine Chemical has been at trial production stage of caustic soda products since May 2009 and as of December 31, 2009, Marine Chemical has not commenced commercial production of caustic soda products. Marine Chemical is currently principally engaged in production and sales of caustic soda products, which serve as a catalyst in the production process of alumina.

On June 16, 2006, Shandong Hongqiao entered into a share transfer agreement with each of Ms. Zhang Yanhong, Runbo Investment and Runxia Investment pursuant to which each of Ms. Zhang Yanhong, Runbo Investment and Runxia Investment agreed to transfer all of their respective equity interests in Marine Chemical to Shandong Hongqiao for a total consideration of RMB200 million. The consideration was determined with reference to the then registered capital of Marine Chemical and was paid by Shandong

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Hongqiao in cash in June 2006. Upon completion of the above transfers, the entire equity interests in Marine Chemical was held by Shandong Hongqiao. Our PRC legal advisors, Zong Heng Law Firm, have advised us that no government approval is required under the PRC laws and regulations in respect of the aforesaid transfers.

The registered capital of Marine Chemical was increased to RMB260 million, RMB400 million and RMB600 million, respectively, which was contributed by Shandong Hongqiao as evidenced by business licences issued to Marine Chemical on June 17, 2008, June 30, 2008 and December 26, 2008, respectively. Pursuant to the capital verification reports issued by Shandong Jianxin Accounting Firm Company Limited (山東鑒鑫會計師事務所有限公司) on June 14, 2008, June 21, 2008 and December 21, 2008, respectively, the increases in the registered capital of Marine Chemical was fully paid as of June 13, 2008, June 20, 2008 and December 19, 2008, respectively.

(3) Aluminum & Power

Aluminum & Power was established on December 25, 2002 as a limited liability company in the PRC with an initial registered capital of RMB200 million. Upon its establishment, Chuangye Group, Shandong Shipping Investment Co., Ltd. (山東士平投資有限公司), or Shipping Investment, Runbo Investment, Runxia Investment and Shandong Runqi Investment Co., Ltd. (山東潤齊投資有限公司), or Runqi Investment, held 55%, 24.75%, 6.75%, 6.75% and 6.75% equity interests in Aluminum & Power, respectively. Mr. Zhang and Mr. Qi Xingli (an executive Director) held 75% equity interests in Shipping Investment and Runqi Investment, respectively. Mr. Liu Shubin and Mr. Zhang Shixue held 15% and 10% equity interests in Shipping Investment, both of whom are Independent Third Parties. Runqi Investment was dissolved in 2005. Aluminum & Power is currently principally engaged in production and sales of aluminum products.

On March 10, 2005, Runqi Investment transferred 6.75% of the equity interests in Aluminum & Power to Shipping Investment for a consideration of RMB13.5 million. The consideration was determined with reference to the then registered capital of Aluminum & Power.

Pursuant to the capital verification report issued by Zouping Jianxin Limited Liability Accounting Firm (鄒平鑒鑫有限責任會計師事務所) on May 29, 2006, the registered capital of Aluminum & Power was increased to RMB2,000 million by the additional contribution of RMB1,800 million made by Chuangye Group, in the form of (i) certain alumina production assets with an appraised value of approximately RMB1,170 million contributed on May 20, 2006; and (ii) cash of RMB630 million paid on May 29, 2006. On June 5, 2006, Aluminum & Power was issued a new business licence which evidenced such an increase in its registered capital. As confirmed by our Directors, it was intended that the injection of alumina assets into Aluminum & Power would increase the registered capital of Aluminum & Power and improve its debt-asset ratio, which would in turn improve Aluminum & Power's financing capacity to facilitate its development plan. Having considered the expected increase in the demand for aluminum products in the PRC in future, the excess production capacity of alumina in Shandong Province and the future expenditure to be incurred for the alumina production business, at the time of the injection of alumina assets into Aluminum & Power, it (i) did not intend to keep the alumina assets after the completion of the capital increase; (ii) considered that it would be in the best interest of Aluminum & Power to focus on the aluminum production business; and (iii) intended to transfer such alumina assets back to Chuangye Group in the event that no Independent Third Party could be identified to purchase such alumina assets. Under the aforesaid arrangement, Chuangye Group increased the registered capital of Aluminum & Power from RMB200 million to RMB2,000 million by the injection of the said alumina production assets and RMB630 million in cash. After such increase, the equity interests in Aluminum & Power were held by Chuangye Group, Shipping Investment, Runbo Investment and Runxia Investment as to 95.5%, 3.15%, 0.675% and 0.675%, respectively.

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On June 5, 2006, Aluminum & Power entered into an alumina assets transfer agreement, pursuant to which the alumina assets previously injected by Chuangye Group as part of the registered capital of Aluminum & Power were transferred back to Chuangye Group before Chuangye Group was able to identify any Independent Third Party to purchase such assets. The alumina assets were transferred back at the request of Shandong Hongqiao, being the proposed acquirer of Aluminum & Power at that time. At the time of such transfer, Mr. Zhang held approximately 4.53% equity interests in Chuangye Group and held 98% beneficial interest in Shandong Hongqiao. The alumina assets were transferred at a consideration of RMB1,170 million which was determined based on the appraised value of the alumina assets. Chuangye Group paid such consideration through settlement of receivables and payables among Shandong Hongqiao, Aluminum & Power and Chuangye Group at the end of 2006. Our PRC legal advisors, Zong Heng Law Firm, have advised us that such settlement is lawful, valid and enforceable under PRC laws and regulations and the capital contribution made by Chuangye Group by way of injection of the alumina assets and the subsequent buyback of the same alumina assets complied with the relevant requirements and would not constitute false capital contribution under the PRC laws.

Taking into consideration of the expected future growth in the market of aluminum products, we wished to engage in aluminum products manufacturing business through Aluminum & Power as a platform and planned to acquire aluminum production facilities or construct new facilities in 2006 and 2007, including power generation facilities and aluminum products manufacturing lines. Aluminum & Power's business scope includes thermal power generation and was constructing power stations at the time of our acquisition. Since electricity is essential to the manufacture of aluminum products and the power generation capabilities of Aluminum & Power would ensure a stable supply of electricity to our Group, Aluminum & Power was considered an integral part of our Group's business model and of significant strategic value to our Group. Therefore, our Directors considered it a suitable platform for the development of our aluminum products manufacturing business.

In light of the above considerations, on June 9, 2006, Shandong Hongqiao, Chuangye Group, Shiping Investment, Runbo Investment and Runxia Investment entered into a share transfer agreement or, the Share Transfer Agreement, pursuant to which each of Shandong Hongqiao, Chuangye Group, Shiping Investment, Runbo Investment and Runxia Investment agreed that all the beneficial interest and the rights and obligations attaching to the entire equity interests in Aluminum & Power would be transferred to Shandong Hongqiao. Each of Chuangye Group, Shiping Investment, Runbo Investment and Runxia Investment remained the holders of the registered capital of Aluminum & Power before the completion of the registration procedure with the local administration for industry and commerce in November 2006 and February 2007 (for Chuangye Group) as set out below. Our Company's PRC legal advisors, Zong Heng Law Firm, have advised us that such arrangement is legal and valid under the PRC laws and regulations and no government approval is required under the PRC laws and regulations in respect of the aforesaid arrangement.

The consideration of RMB5,000 million for the above transfer was determined with reference to the then registered capital of RMB2,000 million of Aluminum & Power and the condition that additional financial resources would be contributed to the registered capital of Aluminum & Power for and on behalf of Shandong Hongqiao after the transfer of the beneficial interest in the equity interests in Aluminum & Power to Shandong Hongqiao. Aluminum & Power paid RMB3,630 million for and on behalf of Shandong Hongqiao and settled part of the consideration of RMB1,170 million for Shandong Hongqiao by offsetting its amounts due from Chuangye Group at the end of 2006 and the remaining consideration of RMB200 million was paid by Shandong Hongqiao to Chuangye Group by May 15, 2007. Our PRC legal advisors, Zong Heng Law Firm, have advised us that such settlement is lawful and valid and enforceable under PRC laws and regulations. Based on the then operation status of Aluminum & Power and its future expansion plan, Aluminum & Power needed more readily available funds and a higher registered capital to enhance its financing capability to afford more flexibility in its working capital and to implement its expansion plan and Chuangye Group was in a better financial position and had more readily available funds than

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Shandong Hongqiao to make further capital contribution to the registered capital of Aluminum & Power at that time. Therefore, Chuangye Group contributed an additional RMB3,000 million to the registered capital of Aluminum & Power for and on behalf of Shandong Hongqiao in June and December 2006, as set out below.

On June 27, 2006, the registered capital of Aluminum & Power was increased to RMB3,500 million which was contributed by Chuangye Group for and on behalf of Shandong Hongqiao. Pursuant to the capital verification report issued by Zouping Jianxin Limited Liability Accounting Firm (鄒平鑿鑫有限責任會計師事務所) dated June 23, 2006, the increase in the registered capital of Aluminum & Power was fully paid on June 19, 2006. After such increase, Chuangye Group held 97.43% equity interests in Aluminum & Power for and on behalf of Shandong Hongqiao.

On November 25, 2006, Chuangye Group entered into a share transfer agreement with each of Shiping Investment, Runbo Investment and Runxia Investment, pursuant to which Chuangye Group acquired 1.8%, 0.385% and 0.385% equity interests in Aluminum & Power from Shiping Investment, Runbo Investment and Runxia Investment at a consideration of RMB63 million, RMB13.5 million and RMB13.5 million, respectively, which was determined with reference to the then registered capital of Aluminum & Power of RMB3,500 million. Such transfer was requested by Shiping Investment, Runbo Investment and Runxia Investment to enable them to obtain funding for their investment in other businesses and Chuangye Group paid such consideration for and on behalf of Shandong Hongqiao for the convenience of subsequent settlement among Chuangye Group, Shandong Hongqiao and Aluminum & Power. The filing with the relevant local administration for industry and commerce was completed on December 15, 2006. After such transfer, Chuangye Group held 100% equity interests in Aluminum & Power for and on behalf of Shandong Hongqiao.

The registered capital of Aluminum & Power was further increased to RMB5,000 million as evidenced by a new business licence issued to Aluminum & Power on December 20, 2006, which was contributed by Chuangye Group for and on behalf of Shandong Hongqiao. Pursuant to the capital verification report issued by Zouping Jianxin Limited Liability Accounting Firm (鄒平鑿鑫有限責任會計師事務所) dated November 30, 2006, the increase in the registered capital of Aluminum & Power was fully paid on November 28, 2006. The total amount of increase in registered capital of RMB3,000 million was mainly used by Aluminum & Power for the procurement of raw materials, construction of thermal power station and purchase and construction of aluminum products manufacturing facilities in 2006 and 2007. On February 1, 2007, Shandong Hongqiao completed registration procedure with local administration for industry and commerce authority and became the holder of the entire registered capital of Aluminum & Power.

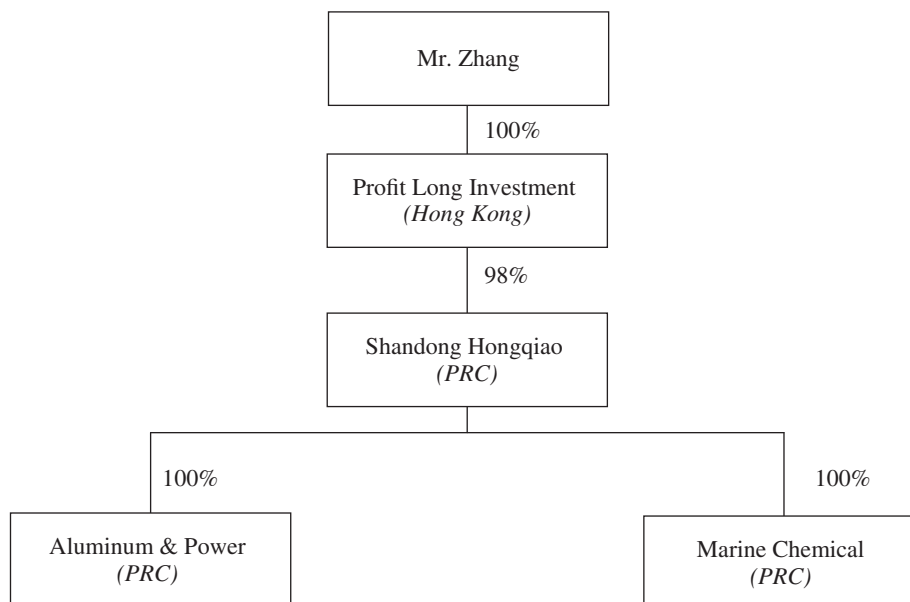
(4) Zhengtong

Zhengtong was established in the PRC on May 20, 2008 as a limited liability company with a registered capital of RMB200 million and is an indirect wholly-owned subsidiary of our Company. Upon its establishment, Ms. Zheng and Marine Chemical held 80% and 20% of the equity interests in Zhengtong, respectively.

On June 21, 2008, Marine Chemical entered into a share transfer agreement with Gaoxin Aluminum & Power, pursuant to which Marine Chemical transferred its 20% of the equity interests in Zhengtong to Gaoxin Aluminum & Power at a consideration of RMB40 million. The consideration was determined with reference to the registered capital of Zhengtong. On November 1, 2008, Ms. Zheng transferred 15%, 20% and 20% of the equity interests in Zhengtong to each of Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛) and Ms. Ma Guixia (馬桂霞) at a consideration of RMB30 million, RMB40 million and RMB40 million, respectively. The consideration was determined with reference to the registered capital of Zhengtong. Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛) and Ms. Ma Guixia (馬桂霞) are all employees of Chuangye Group.

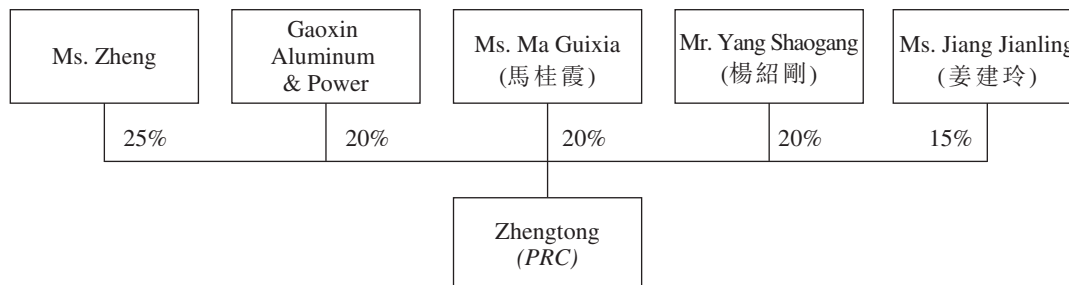
HISTORY AND REORGANIZATION

Set out below is the shareholding structure of our PRC subsidiaries immediately prior to the Reorganization:



Note: Chuangye Group held 2% equity interests in Shandong Hongqiao immediately before our Reorganization.

Shareholding structure of Zhengtong



HISTORY AND REORGANIZATION

REORGANIZATION

In order to streamline and rationalize our corporate structure for the Listing, the companies comprising our Group underwent the Reorganization and as a result, our Company became the holding company of our Group. The Reorganization involved the following steps:

(1) Offshore restructuring

(a) *Hongqiao Holdings*

Hongqiao Holdings was incorporated in the BVI with limited liability on February 5, 2010 and is authorized to issue a maximum of 50,000 shares of US\$1.00 each. On February 5, 2010, Mr. Zhang subscribed for 100 shares in Hongqiao Holdings and became the sole shareholder of Hongqiao Holdings, which is used to hold his interests in our Group.

(b) *Our Company*

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on February 9, 2010 to act as the holding company of the subsidiaries of our Group. As of the date of incorporation, the authorized share capital of our Company was US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 1 share and 99 shares were allotted and issued, credited as fully paid, to Offshore Incorporation (Cayman) Limited (as nominee) and Hongqiao Holdings, respectively. On the same date, Offshore Incorporation (Cayman) Limited transferred the one share held by it to Hongqiao Holdings at the nominal value of US\$1.00.

As set out below, on April 13, 2010, 9,900 Shares were issued to Hongqiao Holdings. On June 7, 2010, the par value of our Shares has been changed from US\$1.00 to US\$0.01 and therefore, the number of Shares held by Hongqiao Holdings was increased to 1,000,000 from 10,000.

(c) *Hongqiao Investment*

Hongqiao Investment was incorporated in the BVI with limited liability on February 5, 2010 and is authorized to issue a maximum of 50,000 shares of US\$1.00 each. No share was issued by Hongqiao Investment as of the date of its incorporation. On February 9, 2010, our Company subscribed for 100 shares in Hongqiao Investment, which became our wholly-owned subsidiary.

(d) *Hongqiao Hong Kong*

Hongqiao Hong Kong was incorporated in Hong Kong with limited liability on February 18, 2010 with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. At the time of its incorporation, 10,000 shares of Hongqiao Hong Kong were allotted and issued, credited as fully paid, to Hongqiao Investment.

(2) Onshore Restructuring

(a) *Shandong Hongqiao*

On March 9, 2010, Hongqiao Hong Kong entered into an equity transfer agreement with Profit Long Investment and Chuangye Group, pursuant to which each of Profit Long Investment and Chuangye Group agreed to transfer their respective 98% and 2% of the equity interests in Shandong Hongqiao to Hongqiao Hong Kong at considerations of RMB3,193,920,500, or the 98% Transfer Consideration, and RMB65,182,000, respectively. The considerations were determined with reference to the appraised value of the net assets of Shandong Hongqiao as of December 31, 2009 as indicated in the appraisal report prepared by Shandong Huayong Assets Appraisal Co., Ltd (山東華永資產評估有限公司) dated March 3, 2010. On March 15, 2010, the Department of Commerce of Shandong Province (山東省商務廳) approved

HISTORY AND REORGANIZATION

such transfer. After such transfers, Shandong Hongqiao became an indirect wholly-owned subsidiary of our Company. On March 16, 2010, Hongqiao Hong Kong paid the consideration to Chuangye Group for its acquisition of 2% equity interests in Shandong Hongqiao from Chuangye Group, which was funded by a term loan facility provided to our Company by a commercial bank in Hong Kong on March 9, 2010. Our Company repaid such bank loan on May 28, 2010. In order to repay the loan due to the commercial bank in Hong Kong, our Company entered into a loan agreement on May 15, 2010 with Winning Shipping (HK) Company Limited, or Winning Shipping, an Independent Third Party. Pursuant to such loan agreement, Winning Shipping agreed to advance US\$10,500,000 to our Company for a term of two years and if our Company is able to repay such loan within two years, the loan will be free of interest. This loan was unsecured and unguaranteed. If our Company fails to repay such loan within two years, our Company will be required to repay the principal and the interests accrued thereon at an interest rate of 4% per annum. As confirmed by our Directors, Winning Shipping provided such loan to our Company mainly due to the fact that Mr. Zhang Bo, an executive Director, is a personal friend of the chairman of Winning Shipping. On November 24, 2010, we repaid such loan through a bank loan from a commercial bank in Hong Kong.

On April 13, 2010, our Company executed a deed of assignment of receivables with Mr. Zhang, Profit Long Investment, Hongqiao Investment and Hongqiao Hong Kong, pursuant to which Profit Long Investment has agreed to assign, and Mr. Zhang has agreed to take up the rights and entitlement of Profit Long Investment to receive the 98% Transfer Consideration from Hongqiao Hong Kong. On the same date, our Company entered into a share subscription agreement with Mr. Zhang, Hongqiao Holdings, Hongqiao Investment and Hongqiao Hong Kong, pursuant to which (i) our Company (as the holding company of Hongqiao Hong Kong) has agreed to issue and allot, credited as fully paid, 9,900 Shares to Hongqiao Holdings (a company wholly-owned by Mr. Zhang) at a consideration of RMB3,193,920,500, or the Share Allotment Consideration; (ii) each of Mr. Zhang, Hongqiao Holdings, our Company and Hongqiao Investment has agreed that the 98% Transfer Consideration shall be set-off by the Share Allotment Consideration such that after the issue of the 9,900 Shares to Hongqiao Holdings, the liability of Hongqiao Hong Kong to pay the 98% Transfer Consideration to Mr. Zhang will be released and discharged; (iii) in consideration of the issue and allotment by our Company of the 9,900 Shares to Hongqiao Holdings at the Share Allotment Consideration which set-off the 98% Transfer Consideration on behalf of Hongqiao Hong Kong, Hongqiao Hong Kong agreed to issue and allot 100 shares to Hongqiao Investment at a consideration of RMB3,193,920,500 which, at the direction of Hongqiao Hong Kong, shall be settled by the issued allotment of 100 shares by Hongqiao Investment to our Company; and (iv) after the issue and allotment of shares by Hongqiao Investment as set out in (iii) above, each of our Company, Hongqiao Investment and Hongqiao Hong Kong has agreed that the liability of Hongqiao Hong Kong to pay RMB3,193,920,500 to our Company will be released and discharged. On the same date, 9,900 Shares were issued to Hongqiao Holdings by our Company and accordingly, the liability of Hongqiao Hong Kong to settle the 98% Transfer Consideration was released and discharged, and each of Hongqiao Hong Kong and Hongqiao Investment issued and allotted 100 shares of its respective share capital to Hongqiao Investment and our Company, respectively.

(b) Marine Chemical

Marine Chemical is principally engaged in production and sales of caustic soda products, which are used in the production of alumina but not in our Group's production of aluminum products. As confirmed by our Directors, in order to better delineate the business of our Group and to concentrate on our core business, on December 28, 2009, Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group entered into an equity transfer framework agreement, pursuant to which (i) Shandong Hongqiao agreed to transfer, and Huibin Dyeing agreed to purchase, 100% equity interests in Marine Chemical with effect from January 1, 2010; (ii) with effect from January 1, 2010, Huibin Dyeing shall assume all of the shareholder's rights and obligations attaching to the 100% equity interests in Marine Chemical; and (iii) the execution of the formal share transfer agreement and the completion of the share transfer of the 100% equity interests in Marine Chemical from Shandong Hongqiao to Huibin Dyeing

HISTORY AND REORGANIZATION

shall be conditional on the acquisition of the entire equity interests in Huibin Dyeing by Profit Long Investment. Pursuant to a confirmation letter signed by Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group on January 1, 2010, all of the shareholder's rights and obligations attaching to the 100% equity interests in Marine Chemical have been assumed by Huibin Dyeing since January 1, 2010.

On February 25, 2010, Shandong Hongqiao and Huibin Dyeing entered into a formal share transfer agreement, pursuant to which Shandong Hongqiao transferred 100% of the equity interests in Marine Chemical to Huibin Dyeing at a consideration of RMB600 million with effect from January 1, 2010. Such consideration was determined with reference to the registered capital of Marine Chemical and was paid by Huibin Dyeing in cash in March 2010. After the aforesaid transfer, Marine Chemical ceased to be a member of our Group. Our Group recorded approximately RMB6.60 million as a gain for the disposal of the entire equity interests in Marine Chemical. Our PRC legal advisors, Zong Heng Law Firm, have advised us that no government approval is required under the PRC laws and regulations in respect of the aforesaid transfer.

(c) Zhengtong

On March 25, 2010, Ms. Zheng, Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛), Ms. Ma Guixia (馬桂霞), Gaoxin Aluminum & Power and Aluminum & Power entered into an equity transfer agreement, pursuant to which each of Ms. Zheng, Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛), Ms. Ma Guixia (馬桂霞) and Gaoxin Aluminum & Power agreed to transfer all of their respective equity interests in Zhengtong to Aluminum & Power at a consideration of RMB205 million. The appraised value of the net assets of Zhengtong as indicated in the appraisal report dated March 31, 2010 prepared by Jones Lang LaSalle Sallmanns Limited was RMB200 million. The consideration was paid by Aluminum & Power in cash in March 2010. Upon completion of the above transfer, Zhengtong became an indirect wholly-owned subsidiary of our Company. Our PRC legal advisors, Zong Heng Law Firm, have advised us that no government approval is required under the PRC laws and regulations in respect of the aforesaid transfer.

Our Binzhou Manufacturing Base Phase I, Binzhou Manufacturing Base Phase II and Binzhou Manufacturing Base Phase III will be operated under Zhengtong. It is expected that Zhengtong will be engaged in production and sales of aluminum alloy products. Our Directors believe that the acquisition of Zhengtong will strengthen our Group's competitiveness against other market players.

PRC LEGAL COMPLIANCE

(1) The M&A Rules

On August 8, 2006, six PRC Governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), or the M&A Rules, which became effective on September 8, 2006 and was revised on June 22, 2009. Pursuant to the M&A Rules, where a domestic individual intends to take over his/her related domestic company in the name of an offshore vehicle which he/she lawfully established or controls, such takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC; and the M&A Rules require an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC entities or individuals shall obtain the approval of the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

The M&A Rules further provide the definition of "takeover of a domestic enterprise by a foreign investor". According to Article 2 of the M&A Rules, "takeover of a domestic enterprise by a foreign investor" is defined as a situation where a foreign investor purchases by agreement the equity interests in a domestic non-foreign-invested enterprise (a "domestic enterprise") or subscribes to the increased capital of a

HISTORY AND REORGANIZATION

domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets.

As advised by our PRC legal advisors, Zong Heng Law Firm, a foreign wholly-owned enterprise established by companies, enterprises or individuals of Hong Kong, the Macau Special Administration Region of the PRC and Taiwan needs to comply with the PRC Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法) and its implementation rules. Shandong Hongqiao was a foreign invested enterprise under the PRC laws and regulations at that time as it was directly held by Hongqiao Hong Kong, which was a foreign investor. Therefore, the acquisition of the 100% equity interests in Shandong Hongqiao by Hongqiao Hong Kong from Profit Long Investment and Chuangye Group was a transfer of equity interests in a foreign-invested enterprise and did not constitute a “takeover of a domestic enterprise by a foreign investor” as defined in the M&A Rules and therefore the M&A Rules is not applicable to such transfer. Our Group did not acquire any equity interests in any PRC domestic enterprise by means of share swap for the purpose of an overseas listing, and therefore the approval of the Ministry of Commerce for our Reorganization and the CSRC’s approval for the Listing and the Global Offering are not required.

Furthermore, as advised by our PRC legal advisors, Zong Heng Law Firm, we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC government authorities for the Reorganization and the Listing.

(2) Circular 75 Registration

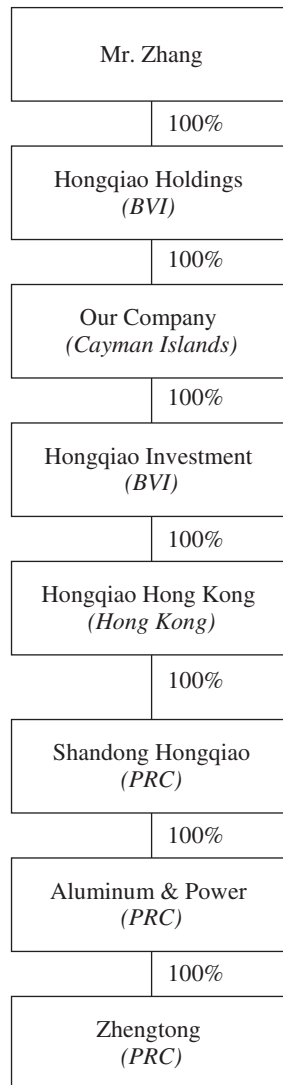
On October 21, 2005, SAFE issued Circular 75, which became effective on November 1, 2005. Pursuant to Circular 75, domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with the local foreign exchange bureau.

As advised by our PRC legal advisors, Zong Heng Law Firm, Circular 75 applies to our Company’s Reorganization and the Global Offering as our Controlling Shareholder, Mr. Zhang is a PRC resident. Mr. Zhang has completed all procedures for the registration and filing in respect of his offshore investment, financing and round-trip investment in March 2010. In his application for the Circular 75 registration in 2010, the trust arrangement in relation to his equity interests in Profit Long Investment has been disclosed to the relevant SAFE governmental authorities. Our PRC legal advisors, Zong Heng Law Firm, has advised us that Mr. Zhang has complied with all of the requirements under Circular 75 and therefore the Listing will not be affected by such SAFE registration.

Our Company’s PRC legal advisors, Zong Heng Law Firm, have further advised us that no other PRC approvals or consents in relation to the Reorganization of our Group, the Listing of our Company and our Controlling Shareholders’ direct or indirect interests in our Company are required to be obtained.

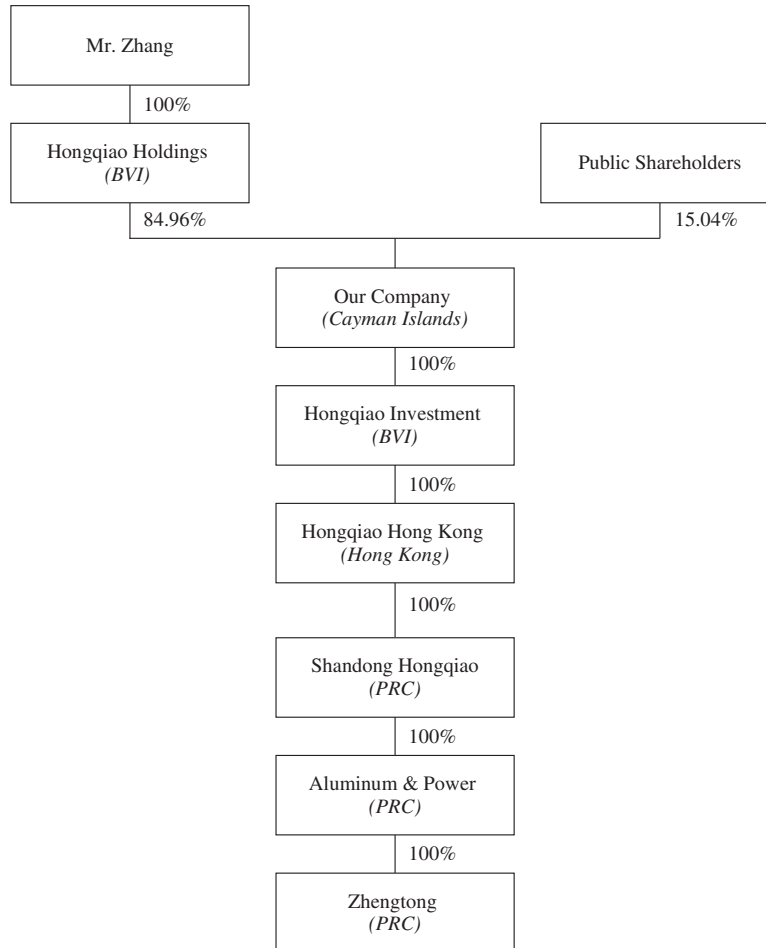
HISTORY AND REORGANIZATION

The following chart sets out our shareholding structure upon completion of the above steps and immediately prior to the completion of the Global Offering:



HISTORY AND REORGANIZATION

The following chart sets out the shareholders and operating subsidiaries of our Company immediately after the completion of the Global Offering and the Capitalization Issue, assuming the Over-allotment Option is not exercised:



BUSINESS

OVERVIEW

We were the fifth-largest aluminum product manufacturer in China, which is the fastest growing major aluminum market in the world, in terms of designed annual aluminum production capacity as of September 30, 2010, according to Antaika. As of the Latest Practicable Date, we had two manufacturing bases, Zouping Manufacturing Base and Weiqiao Manufacturing Base, with an aggregate designed annual production capacity of approximately 916,000 tons of aluminum products. In addition, our Binzhou Manufacturing Base commenced trial production in September 2010, which is expected to have an aggregate designed annual production capacity of approximately 310,000 tons of aluminum products, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us. Our designed production capacity of aluminum products on a weighted average annualized basis was approximately 301,513 tons, 601,085 tons, 738,973 tons and 916,000 tons for the three years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, with utilization rates of approximately 103.1%, 102.6%, 98.3% and 110.3%, respectively, during the same periods.

Our Products

Our aluminum products consist of molten aluminum alloy, aluminum alloy ingots and aluminum busbars. We began manufacturing aluminum products in 2006 by using self-manufactured electrolytic aluminum, which are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. For details of our aluminum production process, see “Business – Production Process.” We sold approximately 276,712 tons, 610,057 tons, 731,043 tons and 747,027 tons of aluminum products for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our revenue generated from our aluminum products accounted for 100% of our revenue derived from our continuing operations for the years ended December 31, 2007, 2008 and 2009 and approximately 95.1% for the nine months ended September 30, 2010, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue derived from our aluminum products for the years ended December 31 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Compared with aluminum alloy ingots, molten aluminum alloy not only allows us to avoid incurring significant molding and other relevant costs, but also helps our customers to avoid cost for smelting or reheating aluminum alloy ingots for further processing as well as the relevant equipment, labor and storage costs. All of our aluminum alloy ingots are produced with self-manufactured molten aluminum alloy. Aluminum busbars are electrolytic aluminum blocks.

We are strategically headquartered in Zouping County, Shandong Province, one of the major aluminum product manufacturing bases in China, where a number of downstream aluminum fabrication product manufacturers are based. We are also connected to other major production bases of downstream aluminum fabrication products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province through developed transportation networks.

BUSINESS

The following table sets forth the sales volume, revenue and average selling price of, and percentage of our revenue derived from, each type of our aluminum products for the periods indicated:

	Year ended December 31,												Nine months ended September 30,								
	2007				2008				2009				2009				2010				
	Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		
	Volume	Revenue	Percentage	Volume	Revenue	Percentage	Volume	Revenue	Percentage	Volume	Revenue	Percentage	Volume	Revenue	Percentage	Volume	Revenue	Percentage	Volume	Revenue	Percentage
	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)	(tons)	(RMB millions)	(%)
Molten aluminum alloy	184,436	2,920.2	15,833	64.8%	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	310,891	3,591.1	11,551	58.0%	633,018	8,439.8	13,333	84.1%	(1)
Aluminum alloy ingot	92,276	1,588.1	17,210	35.2%	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	225,273	2,550.2	11,320	41.3%	109,573	1,525.8	13,925	15.2%	
Aluminum busbar	-	-	-	-	-	-	-	-	7,159	90.2	12,609	1.0%	3,408	40.9	12,010	0.7%	4,436	66.8	15,057	0.7%	
Total	276,712	4,508.3	16,292	100.0%	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	539,572	6,182.2	11,458	100.0%	747,027	10,032.4	13,430	100.0%	

- (1) The significant increase in our revenue attributable to our molten aluminum alloy products as a percentage of our total revenue for the nine months ended September 30, 2010 was primarily due to the significant increase in the sales volume of our molten aluminum products as a result of strong market demand, which outpaced our production output growth.

Our Main Cost Items

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. In addition, we purchased electricity from Chuangye Group for 2007, 2008 and 2009, and we also purchased electricity from Gaoxin Aluminum & Power for 2008, 2009 and the nine months ended September 30, 2010. Gaoxin Aluminum & Power became our exclusive electricity supplier from January 2010. During the Track Record Period, we purchased coal through competitive bidding between a number of coal suppliers, which were Independent Third Parties, except that we purchased coal with a total price of approximately RMB442.1 million from Chuangye Group for 2009, which was priced at the then prevailing market price and accounted for approximately 50.9% of the amount of coal purchased by us for 2009. This was primarily because our secured coal supply was insufficient for our own electricity generating for that period due to the fact that we primarily purchased coal from the spot market in 2009, and we had to procure coal from Chuangye Group, which was our related party and had stable and sufficient coal supply due to its long-time operations of its own thermal power station and established long-term relationships with its coal suppliers, and such coal was all used for our power generation. Our Group has been able to procure sufficient coal for our power generation since then by entering into one-year coal supply agreements with some of our coal suppliers. See “Business – Procurement – Raw materials – Procurement of alumina”, “Business – Electricity Supply – Electricity suppliers” and “Business – Electricity Supply – Our thermal power station – Coal procurement.”

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its alumina business in the name of Aluminum & Power. This agreement expired on December 31, 2009. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. Since Chuangye Group’s disposal of the alumina production facilities to Gaoxin Aluminum & Power, neither Chuangye Group nor our Group has acquired any alumina production facilities or has been involved in alumina production or red mud production. If there is any environmental protection issues, including the red mud, with Gaoxin Aluminum & Power, as its major customer of alumina products, our reputation may be damaged. See “ – Alumina Production’s Environmental Impacts – Environmental Protection of Gaoxin Aluminum & Power’s Alumina Production Business from 2010 onwards.”

BUSINESS

The following table sets forth our average purchase price of alumina, average purchase price of electricity and average coal consumption cost, and the market prices or benchmark prices of alumina, electricity and coal in China for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
Alumina				
Our average purchase price (RMB/ton)	2,379	2,495	1,712	1,590 ⁽¹⁾
Average spot market price of alumina in China (RMB/ton)	3,148	2,885	2,000	2,326
Electricity				
Our average electricity purchase price (RMB/kWh) ⁽²⁾	0.385	0.403 ⁽³⁾	0.442 ⁽³⁾	0.291 ⁽⁴⁾
Benchmark price of Shandong Province ⁽⁵⁾ (RMB/kWh)	0.303	0.311 ⁽⁶⁾	0.318	0.318
Coal				
Our average coal consumption cost ⁽⁷⁾ (RMB/ton)	415	661 ⁽⁸⁾	500	578
Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories ⁽⁹⁾⁽¹⁰⁾	359	543	445	544

- (1) Gaoxin Aluminum & Power became our sole alumina supplier from January 2010. Our Group does not have any alternative arrangement for the supply of alumina. In January 2011, we received feedback from four major alumina suppliers, two in Shandong Province, one in Beijing and one in Henan Province, which were willing to provide us with certain price discounts. However, as these suppliers are not as close to our production bases as Gaoxin Aluminum & Power, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin Aluminum & Power.
- (2) Our Directors have confirmed that the price of electricity supplied to us by Gaoxin Aluminum & Power was determined through arm's length negotiation between Gaoxin Aluminum & Power and us.
- (3) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power network by Gaoxin Aluminum & Power. Our Directors have confirmed that it is a market norm for the customers to bear the construction cost of power networks in the off-the-grid electricity market. See "Business – Electricity Supply – Electricity suppliers."
- (4) Our average purchase price of electricity for the nine months ended September 30, 2010 was lower than that of 2008 and 2009, which was primarily due to the fact that the construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power's generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin Aluminum & Power for the nine months ended September 30, 2010 was lower than the price of electricity purchased by us from Chuangye Group for 2008 and 2009.
- (5) The benchmark price of Shandong Province is set by the Shandong Provincial Government and it refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier's operations and other factors.
- (6) This is the average benchmark price as the benchmark price was RMB0.303 per kWh from January 1, 2008 to June 30, 2008, and RMB0.318 from July 1, 2008 to December 31, 2008.
- (7) Our Group's average coal consumption cost is inclusive of transportation cost in China.
- (8) Our Group's average coal consumption cost was significantly higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories for 2008, which was primarily due to the fact that a large percentage of the coal consumed by our Group was of an average calorific value higher than 5,000 kilocalories for 2008.
- (9) According to Antaike, the Qinhuangdao coal price is the most frequently quoted benchmark price in the coal markets in Shandong Province and other regions in China, and is inclusive of transportation cost of coal transported to Qinhuangdao port, which is the largest coal shipping port in the world. Our Directors believe that Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories is most relevant to our average coal consumption cost.
- (10) *Source:* www.cctd.com.cn (中國煤炭市場網).

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The following table sets forth, assuming that we purchased alumina at the average spot market price in China for the Track Record Period and we purchased electricity at the benchmark price of Shandong Province for the nine months ended September 30, 2010, which were higher than our average purchase prices of alumina and electricity, and that all other factors, including change in inventories, remain unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB in millions)			
Net profit of continuing operations (before minority interests)	903.9	283.6	577.1	2,965.4
Difference of alumina ⁽¹⁾	(298.0)	(350.9)	(300.5)	(789.1)
Difference of electricity ⁽²⁾	–	–	–	(89.6)
Adjusted net profit of continuing operations (before minority interests) ⁽³⁾	605.9	(67.3)	276.6	2,086.7

(1) Difference of alumina = actual purchase volume of alumina for the relevant period × (weighted average actual purchase price of alumina by our Group for the relevant period – average spot market price of alumina in China for the relevant period) × (1- statutory tax rate of the relevant period)

(2) Difference of electricity = actual purchase volume of electricity for the relevant period × (weighted average actual purchase price of electricity by our Group for the relevant period – benchmark price of Shandong Province for the relevant period) × (1- statutory tax rate of the relevant period)

(3) As our average coal consumption costs were higher than the Qinquangdao price of coal with an average calorific value of 5,000 kilocalories during the Track Record Periods, it is not necessary to make the adjustment to our financial results based on coal price changes.

Our Company and the Sole Sponsor are of the view that this analysis of the above-mentioned scenario is accurate and reasonable.

Our Performance

We achieved significant growth in our sales volume of aluminum products during the Track Record Period. The sales volume of our aluminum products increased by approximately 120.5% to approximately 610,057 tons for 2008 from approximately 276,712 tons for 2007. With the onset of the global economic downturn in the second half of 2008, the growth rates of aluminum production and consumption in China slowed down and the price of aluminum products experienced dramatic fluctuations in 2008 and 2009. As a result, our gross profit decreased significantly to approximately RMB533.5 million and approximately RMB899.3 million for 2008 and 2009, respectively, from approximately RMB1,390.4 million for 2007, and our net profit decreased significantly to approximately RMB283.6 million and approximately RMB577.1 million for 2008 and 2009, respectively, from approximately RMB903.9 million for 2007. In response to the global economic downturn, we closely monitored the market and negotiated purchase prices of coal and raw materials according to market conditions, reduced electricity consumption in our production process, strengthened our inventory management and quality control, optimized our manufacturing processes, and solidified our market position by establishing new sales and marketing teams covering Eastern and Southern China. Although our revenue from continuing operations decreased to approximately RMB8,668.4 million for 2009 from approximately RMB8,772.2 million for 2008, our results of operations for 2009 improved compared to our results of operations for 2008. The unit cost of our aluminum products sold decreased to approximately RMB10,627 per ton for 2009 from approximately RMB13,505 per ton in 2008 and the volume of aluminum products sold increased by approximately 19.8% to approximately 731,043 tons for 2009 from approximately 610,057 tons for 2008. The net profit from

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our continuing operations increased by approximately 103.5% to approximately RMB577.1 million for 2009 from approximately RMB283.6 million for 2008. The unit cost of our aluminum products was approximately RMB8,256 per ton for the nine months ended September 30, 2010, and the volume of the aluminum products we sold was approximately 747,027 tons for the same period. The net profit from our continuing operations was approximately RMB2,965.4 million for the nine months ended September 30, 2010 compared to a net profit of approximately RMB212.0 million for the nine months ended September 30, 2009.

Our revenue increased by approximately 70.6% to approximately RMB10,546.5 million for the nine months ended September 30, 2010 from approximately RMB6,182.2 million for the nine months ended September 30, 2009, primarily due to an increase in both our sales volume and average selling price of our aluminum products. In addition, we started selling steam to Gaoxin Aluminum & Power in 2010 and generated revenue of approximately RMB514.1 million for the nine months ended September 30, 2010, which also contributed to the increase in our revenue. Our sales volume of aluminum products increased by approximately 38.4% to approximately 747,027 tons for the nine months ended September 30, 2010 from approximately 539,572 tons for the nine months ended September 30, 2009 primarily due to our increased production capacity and output. The average selling price of our aluminum products increased by approximately 17.2% to approximately RMB13,430 per ton for the nine months ended September 30, 2010 from approximately RMB11,458 per ton for the nine months ended September 30, 2009. As a result of (i) the significant increase in revenue mainly driven by the increase in our sales volume and average selling price underpinned by the recovery of the PRC economy which boasts market demand; (ii) decrease in unit cost of sales of aluminum products as a result of the significant decreases in the electricity cost per kWh and the unit cost of alumina, the net profit from our continuing operations increased to approximately RMB2,965.4 million for the nine months ended September 30, 2010 from approximately RMB212.0 million for the nine months ended September 30, 2009. Should there is any change in the factors mentioned above, our net profit may not grow at such rate or at all. See the risk factors headed “Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control.” and “We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”. The unit cost of our aluminum products sold was approximately RMB8,256 per ton for the nine months ended September 30, 2010.

The following table sets forth the unit cost of sales of our aluminum products for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,	
	2007	2008	2009	2009	2010
Unit cost of sales of our aluminum products (RMB/ton).	11,268	13,505	10,627	10,807	8,256

Our Customers

We sell all of our aluminum products to domestic customers, who are located mainly in Shandong Province as well as in other regions of China, such as in Northeastern, Southern, Eastern and Northern China. During the Track Record Period, our customers included downstream aluminum fabrication product manufacturers, who processed our aluminum alloy products into aluminum fabrication products, and traders, who in turn resold our aluminum products to downstream aluminum fabrication product manufacturers or other traders. We sell our products through our own sales and marketing team. All of our molten aluminum alloy customers are based in Zouping County and in close proximity to our manufacturing bases. Our five largest customers accounted for approximately 63.1%, 66.1%, 58.0% and

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74.1% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our largest customer accounted for approximately 43.9%, 24.1%, 20.0% and 41.5% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. During the Track Record Period, among our five largest customers, those located in Zouping County are downstream aluminum fabrication product manufacturers, and those located outside of Zouping County are traders. As of the Latest Practicable Date, we had 55 customers.

Procurement of Alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 63.2%, 69.1%, 73.4% and 61.6% of our total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our aggregate alumina purchase costs amounted to approximately RMB1,374.7 million, RMB2,996.0 million, RMB2,382.3 million and RMB2,272.7 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, and the average purchase price that we paid was approximately RMB2,379 per ton, RMB2,495 per ton, RMB1,712 per ton and RMB1,590 per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina was approximately RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, in China.

Electricity Supply

Electricity is also one of the principal cost components in manufacturing our aluminum products. Our electricity cost was approximately RMB2,374.1 million for the nine months ended September 30, 2010, accounting for approximately 36.5% of the cost of sales during that period. During the Track Record Period, we purchased electricity from Chuangye Group and Gaoxin Aluminum & Power. To further secure a stable electricity supply, our own thermal power station started to supply electricity to us in January 2007. As of the Latest Practicable Date, our power station had an aggregate installed capacity of 1,080 MW. In addition, we started to sell steam produced by our thermal power station to Gaoxin Aluminum & Power from January 1, 2010. The revenue from the sale of steam was approximately RMB514.1 million for the nine months ended September 30, 2010, accounting for approximately 4.9% of our revenue of continuing operations during the same period.

Discontinued Operations

In addition, we had discontinued operations during the Track Record Period. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its alumina business in the name of Aluminum & Power for the period from May 26, 2006 to December 31, 2009. In addition, we operated a dyeing business under Shandong Hongqiao and a caustic soda manufacturing business under Marine Chemical. To focus on our aluminum production business, we disposed of the dyeing business and the caustic soda manufacturing business in early 2010. The profit from these discontinued operations was approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, and the net loss was approximately RMB9.4 million for 2009. Such decrease in profit during the Track Record Period and the net loss in 2009 was primarily due to the decrease in management fee rates relating to the alumina agency business from 2007 to 2009, and the fact that no such management fee was paid for the nine months ended September 30, 2010 as a result of the expiration of the Agency Agreement.

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OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors to our success to date and will help us continue increase our market share and capture the anticipated future growth in the aluminum market:

Established market position in the Chinese aluminum industry in terms of scale and technology with a track record of operational excellence

We were the fifth-largest aluminum product manufacturer in China in terms of designed annual aluminum production capacity as of September 30, 2010, according to Antaike. As of the Latest Practicable Date, we had two manufacturing bases, Zouping Manufacturing Base and Weiqiao Manufacturing Base, with an aggregate designed annual production capacity of approximately 916,000 tons of aluminum products. In addition, we are in the process of constructing our Binzhou Manufacturing Base Phase I and Phase II, which will have a total designed annual production capacity of approximately 610,000 tons of aluminum products. We started trial production of the Binzhou Manufacturing Base Phase I in late September 2010, which had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products as of the Latest Practicable Date. We expect to complete the construction of the Binzhou Manufacturing Base Phase I by the end of March 2011 and the Binzhou Manufacturing Base Phase II in July 2011, at which time our aggregate designed annual aluminum production capacity will increase to approximately 1,226,000 tons and 1,526,000 tons, respectively.

We have adopted advanced technologies in our production. For example, a majority of our smelting pots are equipped with advanced high-current technology with a working current intensity of 320 kA. According to Antaike, only approximately 34.1% of the total smelting capacity in China was for a working current intensity of 320 kA or above as of September 30, 2010. We believe that our advanced manufacturing technologies and equipment allow us to produce high-quality and value-added aluminum alloy products.

We believe that we are well-positioned to take advantage of our established market position in the aluminum market in China.

Well-positioned to capture the growth potential of the aluminum market in China

Our production facilities and target customers are all based in China, which is the fastest growing major aluminum market in the world. According to Antaike, China's aluminum consumption grew at a CAGR of 18.0% from 2005 to 2009, as a result of the extensive use of aluminum in construction, electrical, transport and consumer durables, as well as the continuing urbanization and economic stimulus package released by the PRC government in 2008. Despite the onset of the global economic downturn in the second half of 2008, China's aluminum consumption continued to increase in 2009 by 8.7% compared with 2008, while the global aluminum consumption declined by 7.8% during the same period, according to Antaike. We believe that China's demand for aluminum products will continue to grow in the mid to long term due to China's continuing urbanization, the sustainable and rapid growth in China's automobile industry and the rapid growth of the high-speed railway system in China.

In addition, we believe the industrial policy in China is favorable to us. The PRC government's industrial policy has been to encourage consolidation in the Chinese aluminum industry to create larger, less polluting and more energy-efficient producers, which gives large domestic aluminum product manufacturers, including us, a stronger competitive advantage over smaller manufacturers. In addition, the NDRC published "Regulation on Entry Conditions" in October 2007, pursuant to which the PRC government introduced more stringent requirements for new aluminum projects in terms of production scale, technology and capital. See "Regulation Overview."

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Competitive cost structure and secure supply of electricity

We believe we have a competitive cost structure. We have strengthened our cost control in the production process by improving our production efficiency. The average cost of our aluminum products sold was approximately RMB10,627 per ton for 2009, compared with an industry average of approximately RMB11,375 per ton in China for 2009, according to Antaike. The average cost of our aluminum products sold further decreased to RMB8,256 for the nine months ended September 30, 2010. We carry out research and development activities in our production process, with focuses on the improvement of our manufacturing techniques and optimization of our production equipment, which have enabled us to improve production efficiency.

In addition, our large scale of production gives us strong bargaining power over raw material suppliers, which has enabled us to enjoy favorable prices and terms.

Electricity cost is one of the principal cost components for all aluminum producers. To ensure a sufficient and stable electricity supply, we started to operate our own thermal power station in January 2007. For the nine months ended September 30, 2010, the electricity supplied by our power station accounted for approximately 57.4% of the volume of our total electricity consumption during that period.

Strategic location of our production facilities

We are strategically headquartered in Zouping County, Shandong Province, one of the major aluminum product manufacturing bases in China, where a number of downstream aluminum product manufacturers are also based. All of our molten aluminum alloy customers are located at Zouping County. Sales of molten aluminum alloy accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue derived from the sale of aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Our manufacturing facilities in Shandong Province are connected to major production bases of downstream aluminum products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province by highly developed transportation networks, including highway, railway and river systems. As a result, we are able to deliver products to our customers and receive raw materials from our suppliers in a timely and cost-effective way.

We believe the strategic location of our production facilities, coupled with our leading market position in the area, gives us a competitive edge in terms of access to customers and raw material suppliers.

Focus on molten aluminum alloy production and sales

Sales of molten aluminum alloy accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue from aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Molten aluminum alloy is our most popular product in terms of sales volume and revenue. By focusing on molten aluminum alloy as compared to aluminum alloy ingots, we avoid incurring significant molding costs and associated electricity, labor, storage and other relevant costs. In addition, by buying molten aluminum alloy, our customers can also save the electricity cost of melting aluminum alloy ingots for further processing, as well as the relevant labor and storage costs.

In addition, all of our molten aluminum alloy customers are located in Zouping County, Shandong Province and are in close proximity to our manufacturing bases. Because molten aluminum alloy is produced pursuant to the purchase orders of our customers, which are all located in close proximity to our manufacturing bases, we are able to deliver the molten aluminum alloy directly from our smelters to our customers' manufacturing sites within a short period of time immediately after the molten aluminum alloy

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is manufactured, which allows us to keep zero inventory of molten aluminum alloy and enjoy a low transportation cost. Furthermore, since we are the largest molten aluminum alloy manufacturer in Zouping County, we believe that we have a unique competitive advantage in attracting and retaining local customers in Zouping County.

Experienced management team with significant industry expertise

We are led by an experienced and stable management team, in particular our executive Director and chief executive officer, Mr. Zhang Bo. Mr. Zhang Bo has more than 12 years of management experience and has been responsible for overseeing our general operations, marketing and promotion in recent years. Our management team has a proven track record of successfully producing and marketing our high quality aluminum products. For example, with the onset of the global economic downturn in the second half of 2008, the growth rates of aluminum production and consumption in China slowed down in 2008 and 2009, and prices of aluminum products experienced dramatic fluctuations. In response, our management team implemented a series of crisis management measures to reduce costs, optimize our production process and strengthen our market position. As a result, while the industry experienced a decrease in production and consumption globally for 2009, we increased the sales volume of our aluminum products by approximately 19.8% to approximately 731,043 tons for 2009 as compared to approximately 610,057 tons for 2008. The sales volume of our aluminum products was approximately 747,027 tons for the nine months ended September 30, 2010.

Our Directors believe that our experienced and committed management team is capable of developing and implementing our strategies quickly in response to market changes.

OUR STRATEGIES

We seek to further strengthen our established market position in the aluminum industry in China. We aim to achieve sustainable growth of our businesses and remain competitive. To achieve this, we intend to focus on the following strategies.

Expand production capacity to increase our market share

We intend to continue to increase our share in the aluminum market by expanding our production scale. We are in the process of constructing our Binzhou Manufacturing Base Phase I for aluminum alloy products with an aggregate designed annual aluminum production capacity of approximately 310,000 tons under Zhengtong in Binzhou City, Shandong Province. We started trial production at our Binzhou Manufacturing Base Phase I in late September 2010 upon partial completion of this project and expect to fully complete the construction of this project by the end of March 2011, at which time our aggregate designed annual aluminum production capacity is expected to increase to approximately 1,226,000 tons. We also started the construction of Binzhou Manufacturing Base Phase II in December 2010, which is expected to have an aggregate designed annual production capacity of approximately 300,000 tons of aluminum alloy products. We expect to complete the construction of the Binzhou Manufacturing Base Phase II in July 2011. Furthermore, we plan to start the construction of the Binzhou Manufacturing Base Phase III in the second half of 2011 and complete the construction of this project in the first half of 2012. In addition, we may also acquire reputable aluminum product manufacturers with growth potential to increase our production capacity. As of the Latest Practicable Date, we had not yet identified any target of such acquisition.

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Expand into downstream markets for high value-added aluminum fabrication products

We aim to become a leading manufacturer in China of high value-added aluminum fabrication products by using self-manufactured aluminum alloy products. We plan to achieve this goal progressively. We have established ourselves as a leading manufacturer of aluminum products, which we believe will provide us with the necessary market reputation, financial condition and technologies to further expand into downstream market for high value-added aluminum fabrication products. We plan to develop our capacity of high value-added aluminum fabrication products under the Binzhou Manufacturing Base Phase I, the Binzhou Manufacturing Base Phase II and the Binzhou Manufacturing Base Phase III when we consider the market condition favorable to us. However, we do not have a final plan of the timing and specific products among the high value-added aluminum fabrication products which we intend to develop. We believe that, by offering high value-added aluminum fabrication products, we will be able to diversify our product mix and enhance our competitiveness in the market. In addition, as the profit margin of high-end and advanced aluminum fabrication products, such as aluminum flat-rolled products and aluminum extrusion products, are generally higher than that of our current aluminum products, we will be able to improve our overall profit margin by developing high value-added aluminum fabrication products.

Enhance product research and development capabilities

We seek to focus our research and development efforts on improving our manufacturing techniques, improving product quality and reducing costs. We plan to enhance our capabilities by placing additional resources to our research and development activities by way of recruiting additional research and development staff, including engineers, and purchase of additional advanced machinery and equipment. In addition, we plan to broaden our product portfolio and improve our production process through our continuing research and development activities.

We are in the process of developing our research and development center, and we intend to recruit more research and development personnel to develop new products, such as high value-added aluminum fabrication products, procure advanced equipment for our laboratory to improve our production technology, enhance product quality and reduce production cost. Preparation for the center commenced in April 2010 and it is expected to be put into use in May 2011. We plan to develop our automatic and integrated work safety monitoring system. We also plan to develop cooperative relationships with research and academic institutions to diversify our product mix.

Further improve cost structure and achieve additional cost reductions

We seek to improve our cost structure and achieve additional cost reductions mainly through three approaches:

- (1) to invest in, improve and upgrade our production facilities, technology and production processes, which will improve our production efficiency and allow us to achieve savings in electricity and raw materials consumption, repair and maintenance expenses and labor cost;
- (2) to increase the percentage of electricity generated by our own thermal power station relative to our total electricity consumption by improving the utilization rate and production efficiency of our own thermal power station and to obtain new capacity to further reduce the average production cost of our aluminum products; and
- (3) to continue to reduce our raw material costs by leveraging the growing scale of our operations with a view to obtaining volume discounts.

Increase our marketing and sales efforts

We plan to devote more resources to our marketing and sales. While strengthening our dominant market position in Zouping County, we also seek to improve our market penetration in other regions in China, especially in Northeastern, Southern, Eastern and Northern China, where the major downstream aluminum processing bases are located. To further strengthen our market position, we plan to expand our sales and distribution network and develop the market for our new products, including establishment of new sales

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offices, provision of training programs to our sales and marketing personnel, participation in conferences and trade fairs and exhibitions, advertisement of our products in China and overseas, development of our website for sales and marketing, enhancement of our after-sale services and improvement in the remuneration for our sales and marketing personnel. We believe that our reputation as a high quality aluminum alloy manufacturer helps us attract new customers and retain existing customers for our aluminum products. We believe that the successful execution of this strategy will also help to diversify our customer base.

OUR PRODUCTS

Aluminum products are widely used in various industries, such as construction, electrical, transport and consumer durables. Aluminum is a silvery white and ductile member of the boron group of chemical elements, the third most abundant element in the earth's crust, after oxygen and silicon. Aluminum is the most widely used non-ferrous metal for its corrosion resistance due to the phenomenon of passivation and its low density, low tensile strength, and ease in forming alloys with many chemical elements such as copper, zinc, manganese, silicon, and magnesium, which have significant improvement in mechanical properties.

We organize and manage our operations according to our three principal product lines: molten aluminum alloy, aluminum alloy ingots and aluminum busbars. Our molten aluminum alloy and aluminum alloy ingots are labelled as 6063 alloys and 356Z.1 alloys and our aluminum busbars are labelled as A199.70A aluminum pursuant to the State quality standards promulgated by the PRC government. See "– Quality Control." Because 6063 alloys are thermoplastic, anti-corrosive and easy to process, they are widely used in industrial and residential construction, as well as heat and electricity conduction materials. As 356Z.1 alloys have outstanding physical and mechanical properties and are light and anti-corrosive, they are used in producing wheel hubs of automobiles. Our aluminum busbars are mainly used as parts in aluminum smelting furnaces.

Our revenue generated from aluminum products accounted for 100% for 2007, 2008 and 2009 and approximately 95.1% for the nine months ended September 30, 2010 of our revenue derived from our continuing operations, respectively. The following table sets forth the sales volume, revenue and average selling price and revenue derived from each type of our aluminum products as a percentage of our total revenue for the periods indicated:

	Year ended December 31,												Nine months ended September 30,									
	2007				2008				2009				2009				2010					
	Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price			
	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	Volume	in (RMB/ (tons) millions)	Percentage of revenue	
Molten aluminum alloy	184,436	2,920.2	15,833	64.8%	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	310,891	3,591.1	11,551	58.0%	633,018	8,439.8	13,333	84.1%		
Aluminum alloy ingot	92,276	1,588.1	17,210	35.2%	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	225,273	2,550.2	11,320	41.3%	109,573	1,525.8	13,925	15.2%		
Aluminum busbar	-	-	-	-	-	-	-	-	7,159	90.2	12,609	1.0%	3,408	40.9	12,010	0.7%	4,436	66.8	15,057	0.7%		
Total	276,712	4,508.3	16,292	100.0%	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	539,572	6,182.2	11,458	100.0%	747,027	10,032.4	13,430	100.0%		

(1) The significant increase in our revenue attributable to our molten aluminum alloy products as a percentage of our total revenue for the nine months ended September 30, 2010 was primarily due to the significant increase in the sales volume of our molten aluminum products as a result of strong market demand, which outpaced our production output growth.

In addition, our revenue derived from sales of steam amounted to approximately RMB514.1 million for the nine months ended September 30, 2010, accounting for approximately 4.9% of our revenue derived from our continuing operations during the same period.

Molten aluminum alloy



Molten aluminum alloy is our major product, which accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue generated from sales of aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Molten aluminum alloy is a red and yellow hot liquid, in which aluminum is the predominant metal and combined with iron, copper, zinc, manganese, silicon, magnesium and other chemical elements. Molten aluminum alloy is an important material for fabricating aluminum products. We use self-manufactured electrolytic aluminum to manufacture molten aluminum alloys.

Molten aluminum alloy has to be stored in a specially designed container to keep its temperature at 750°C to 900°C during delivery. All of our customers for molten aluminum alloy are based in Zouping County and are in close proximity to our manufacturing bases. We engage a third-party delivery service provider to deliver molten aluminum alloy to our customers. See “– Delivery of Products.” Our customers then pour the molten aluminum alloy directly into molds to produce various downstream aluminum products.

According to Antaike, approximately 30% to 40% of aluminum manufacturers in the PRC provide their customers with molten aluminum alloy as the intermediate product for further processing into aluminum fabrication products. According to Antaike, as of September 30, 2010, there were two molten aluminum alloy suppliers in Zouping County, including us. As the largest aluminum alloy supplier in Zouping County, we accounted for approximately 86.7% of the annual production capacity of primary aluminum in Zouping County as of September 30, 2010, according to Antaike. However, our molten aluminum alloy customers can also use the other local molten aluminum alloy supplier to supply molten aluminum alloy for their operations. In addition, our molten aluminum alloy customers which have in-house smelting and reheating capacity can also use aluminum alloy ingots as the substitute for molten aluminum alloy. However, taking into consideration that our customers in Zouping County generally prefer using molten aluminum alloy in light of its various benefits, our Directors believe although there are substitutes for our molten aluminum alloy available to our customers, such substitutes will not have material and adverse impact on our business, financial condition or results of operations.

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The demand for molten aluminum alloy is subject to a number of factors. See “Risk Factors – Risks Relating to Our Business – Our results of operations may fluctuate from period to period”, “Risk Factors – Risks Relating to Our Business – The global financial crisis which commenced in 2008 has had negative impact on the global economy, including the aluminum industry. If the economic downturn continues, it may materially and adversely affect our business, liquidity, financial condition, results of operations and prospects” and “Risk Factors – Risks Relating to Our Business – If the end-user markets of aluminum products contract or do not grow at the pace we expect, our business, financial condition and results of operations may be materially and adversely affected.”.

Aluminum alloy ingots



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Sales of aluminum alloy ingots accounted for approximately 35.2%, 43.5%, 37.5% and 15.2% of our revenue generated from aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Molten aluminum alloy is further processed into aluminum alloy ingots through molding, casting and cooling. Our aluminum alloy ingots are produced by using self-manufactured molten aluminum alloy.

Aluminum busbars



Aluminum busbars are electrolytic aluminum blocks. We started to produce aluminum busbars in 2006 but the aluminum busbars were only for our own use in 2007 and 2008. We started to sell aluminum busbars in 2009. Sales of aluminum busbars accounted for approximately 1.0% and 0.7% of our revenue generated from our aluminum products for 2009 and the nine months ended September 30, 2010, respectively. All of our aluminum busbars were sold to Chuangye Group for 2009, which were used as parts in the smelting pots of the production line we acquired from Chuangye Group in 2010. See “History and Reorganization – Business Milestones.”

We have also sold aluminum busbars to an Independent Third Party customer in Zouping County in 2010. Other than the sales to this Independent Third Party customer and Chuangye Group, we have not sold aluminum busbars to any other customer and all of our aluminum busbars have been used for the construction of the production lines in our Binzhou Manufacturing Base. We do not intend to expand the production of aluminum busbars and intend to produce aluminum busbars for our own use in the future.

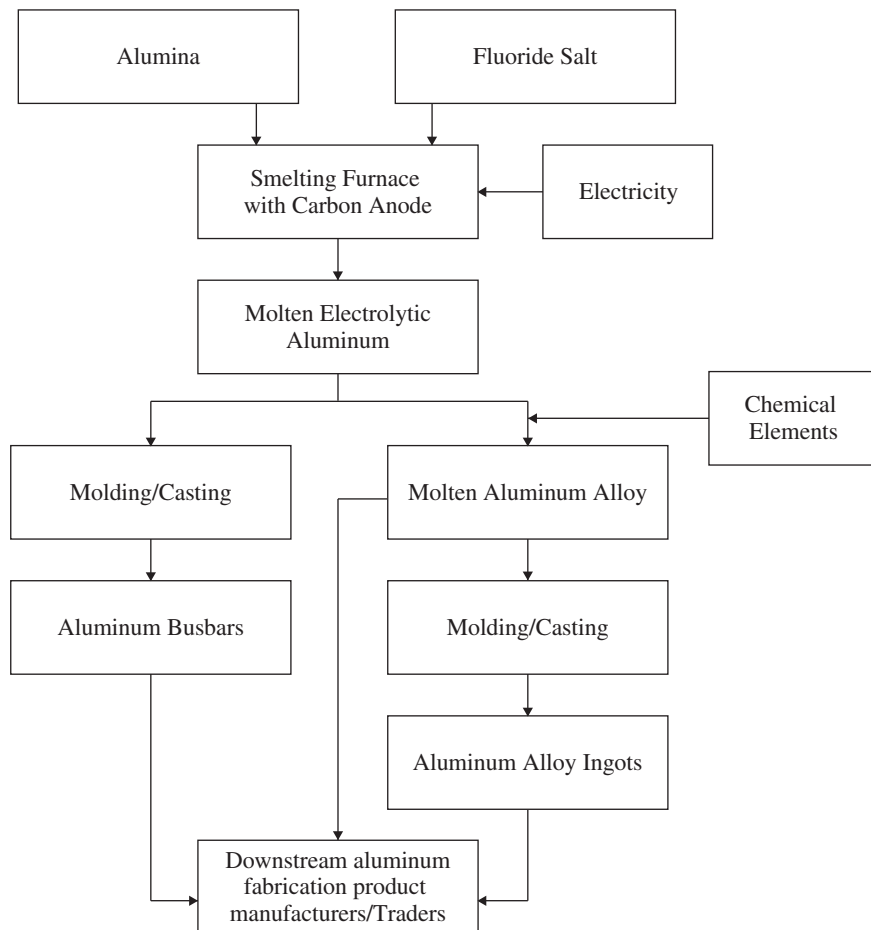
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PRODUCTION PROCESS

Most modern aluminum production facilities adopt the pre-bake reduction process used in aluminum smelting furnaces as it is energy-efficient and environmentally friendly. See “Industry Overview – Overview.” Since our inception, we have used pre-bake anode reduction pot-lines to produce molten aluminum. During the production of molten electrolytic aluminum, the waste gases generated in our production process are purified and recycled through our purification system to reduce emission of waste gases to acceptable levels as regulated by environmental protection agencies.

Molten electrolytic aluminum is made from alumina and carbon anodes through a smelting process using electrolytic reduction. High electric currents at low voltage are passed through the smelting pots to produce molten electrolytic aluminum at a temperature of about 950°C to 970°C. The molten electrolytic aluminum is poured into molds to produce aluminum busbars or combined with various chemical elements to form various molten aluminum alloys. Molten aluminum alloys are poured into molds to produce aluminum ingots.

The production process of our aluminum products is illustrated below:



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OUR PRODUCTION FACILITIES

We have obtained approvals from relevant governmental authorities for annual designed production capacities of approximately 156,000 tons of electrolytic aluminum products and approximately 760,000 tons of aluminum fabrication products. As of the Latest Practicable Date, we operated two manufacturing bases, the Zouping Manufacturing Base and the Weiqiao Manufacturing Base, with an aggregate designed annual production capacity of approximately 916,000 tons of aluminum products. In addition, our Binzhou Manufacturing Base commenced trial production in September 2010, which is expected to have an aggregate designed annual production capacity of approximately 310,000 tons of aluminum products, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us.

Our Group's production capacity of electrolytic aluminum with an aggregate annual designed production capacity of approximately 156,000 tons was approved before the "Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Some Industries" through Financial Services promulgated by the PRC government on December 22, 2009 came into effect. See "Industry Overview – Competition Landscape." In particular, (i) on June 18, 2001, the Binzhou Plan Commission and the Foreign Trade and Economic Commission jointly approved our annual production capacity of 30,000 tons of electrolytic aluminum; (ii) on July 20, 2001, the Binzhou Economic and Trade Commission approved our annual production capacity of 26,000 tons of electrolytic aluminum project; and (iii) on January 10, 2005, Shandong NDRC confirmed our annual production capacity of 100,000 tons of electrolytic aluminum has passed the nationwide review of fixed-assets investments launched by the State Council in 2004, and approved its construction. In addition, on August 23, 2006, Binzhou NDRC confirmed that our aggregate annual production capacity of 156,000 tons of electrolytic aluminum have all passed the aforesaid nationwide review of fixed-assets investments, and approved the commencement of operation of all of our electrolytic aluminum production lines. As advised by our PRC legal advisors, Zong Heng Law Firm, all of our production lines of electrolytic aluminum have been approved by the competent governmental authorities according to the applicable PRC laws at the relevant time. Zong Heng Law Firm has further advised that our Group has duly obtained the requisite approvals in respect of environmental protection and land use right for such production lines, and such project is in compliance with the relevant industry policies and PRC laws and regulations.

Our Weiqiao Manufacturing Base is located in Weiqiao Town, Zouping County, and commenced its operations in September 2006. As of the Latest Practicable Date, our Weiqiao Manufacturing Base had an aggregate designed annual production capacity of approximately 256,000 tons of aluminum products. Our Zouping Manufacturing Base is located in the Zouping Development District, Zouping County, and commenced its operations in July 2007. As of the Latest Practicable Date, our Zouping Manufacturing Base had an aggregate designed annual production capacity of approximately 660,000 tons of aluminum products. All of our manufacturing facilities are located in Zouping County, Shandong Province. Our principal equipment includes 240 kA smelting pots and 320 kA smelting pots, holding furnaces, casting machines and continuous casting and rolling lines.

We acquired from Chuangye Group aluminum production lines with an aggregate designed annual aluminum production capacity of approximately 156,000 tons for approximately RMB839.2 million in September 2006, which is located at our Weiqiao Manufacturing Base, aluminum production lines with an aggregate designed annual aluminum production capacity of approximately 100,000 tons for approximately RMB499.9 million in April 2007, which is located at our Weiqiao Manufacturing Base, and aluminum production lines with an aggregate designed annual aluminum production capacity of approximately 160,000 tons for approximately RMB1,189.7 million in January 2010, which is located at our Zouping Manufacturing Base. The production lines we acquired in January 2010 are equipped with smelting pots for a working current intensity of 320 kA and produce molten aluminum alloy and aluminum alloy ingots. For details of the development of our production capacity, see "History and Reorganization – Business Milestones."

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The following table sets forth the details of our production facilities:

Production line ¹	Products	Approved capacity	Location	Governmental approval/filing date	Construction commencement date ²	Operation commencement date
Line 1	Molten aluminum alloy, aluminum alloy ingots and aluminum busbars	60,000 tons	Weiqiao Manufacturing Base	March 2002 ³	–	September 2006
Line 2	Molten aluminum alloy, aluminum alloy ingots and aluminum busbars	40,000 tons	Weiqiao Manufacturing Base	July 2001 ³	–	September 2006
Line 3	Molten aluminum alloy, aluminum alloy ingots and aluminum busbars	30,000 tons	Weiqiao Manufacturing Base	June 2001 ³	–	September 2006
Line 4	Molten aluminum alloy, aluminum alloy ingots and aluminum busbars	26,000 tons	Weiqiao Manufacturing Base	July 2001 ³	–	September 2006
Line 5	Molten aluminum alloy and aluminum alloy ingots	100,000 tons	Weiqiao Manufacturing Base	December 2006 ⁴	–	April 2007
Line 6	Molten aluminum alloy and aluminum alloy ingots	200,000 tons	Zouping Manufacturing Base	December 2006 ⁴	January 2007	July 2007
Line 7	Molten aluminum alloy and aluminum alloy ingots	20,000 tons	Zouping Manufacturing Base	December 2006 ⁴	–	January 2010
Line 8	Molten aluminum alloy and aluminum alloy ingots	300,000 tons	Zouping Manufacturing Base	July 2007 ⁴	August 2007	May 2008
Line 9	Molten aluminum alloy and aluminum alloy ingots	140,000 tons	Zouping Manufacturing Base	July 2008 ⁴	–	January 2010
Line 10 ⁵	Molten aluminum alloy and aluminum alloy ingots	310,000 tons	Binzhou Manufacturing Base Phase I	February 2009 and December 2009 ⁴	–	–
Line 11 ⁶	Molten aluminum alloy and aluminum alloy ingots	300,000 tons	Binzhou Manufacturing Base Phase II	December 2010 ⁴	December 2010	–

Notes:

- (1) Product lines 1 to 4 are operated under the governmental approvals for 156,000 tons of electrolytic aluminum products. Production lines 5 to 9 are operated under the filings with the relevant government authorities for 760,000 tons of aluminum fabrication products.
- (2) Production lines 1 to 4 were acquired in September 2006. Production line 5 was acquired in April 2007. Production lines 7 and 9 were acquired in January 2010. Production line 10 is operated under Zhengtong, which was acquired by Aluminum & Power in March 2010. Please refer to the “History and Reorganization” section in this prospectus for detail.
- (3) These are the dates when the relevant governmental approvals were granted.
- (4) These are the dates when the relevant governmental filings were completed.
- (5) The Binzhou Manufacturing Base Phase I has an approved aggregate designed annual production capacity of approximately 310,000 tons of aluminum products. Production line 10 started its trial production in late September 2010, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us. We expect to fully complete the construction of the Binzhou Manufacturing Base Phase I by the end of March 2011.
- (6) As of the Latest Practicable Date, Binzhou Manufacturing Base Phase II did not have any production capacity available to us.

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We have acquired aluminum fabrication facilities for low value-added rough machining aluminum fabrication products, such as aluminum alloy sheets and bars, for our 760,000-ton capacity. However, to take advantage of the rapid development of the aluminum industry cluster in Zouping County and, in particular, the capacity of low value-added aluminum fabrication products of our customers, our Directors decided it was in the best interest of our Group to position ourselves as a major supplier of aluminum alloy products and to avoid direct competition with our customers. We believe such rough machining aluminum fabrication capacity nevertheless provides us with the flexibility to change our product mix in response to a changing market and manage our market risk. In addition, we plan to develop our capacity for high value-added aluminum fabrication products, such as aluminum foil, aluminum strip and aluminum extrusion products, under our Binzhou Manufacturing Base by using self-manufactured aluminum alloy products when we consider the market condition favorable to us.

The following table sets forth information relating to our weighted average designed annual production capacity for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 and our production volumes and utilization rates for the same periods:

	For the year ended December 31,			For the nine months ended September 30,
	2007	2008	2009	2010
Weighted average designed annual production capacity (tons) ⁽¹⁾	301,513	601,085	738,973	916,000
Production volume (tons)	310,805	616,972	726,192	757,678
Utilization rate ⁽²⁾	103.1%	102.6%	98.3%	110.3% ⁽³⁾

(1) The weighted average designed annual production capacity for each period is the result of (i) the total sum of the designed annual production capacity of each of our production lines multiplied by the months in that period that such production line possessed such capacity (ii) divided by 12.

(2) Utilization rate is calculated by dividing the production volume for the relevant period with the weighted average designed annual production capacity as of the end of the relevant year.

(3) This is an annualized utilization rate.

Our subsidiary Zhengtong is in the process of constructing our Binzhou Manufacturing Base Phase I for aluminum alloy products with an aggregate designed annual aluminum production capacity of approximately 310,000 tons in Binzhou City, Shandong Province. We started the trial production in late September 2010 upon partial completion of this project, which is expected to have an aggregate designed annual production capacity of approximately 310,000 tons of aluminum products, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us. We expect to fully complete the construction of this project by the end of March 2011, at which time our aggregate designed annual production capacity is expected to increase to approximately 1,226,000 tons. Our total budgeted capital expenditures for the Binzhou Manufacturing Base Phase I are approximately RMB4.2 billion. As of September 30, 2010, the carrying amount of the property, plant and equipment of the Binzhou Manufacturing Base Phase I was approximately RMB653.2 million, and the relevant capital commitment was approximately RMB3,297.2 million. Our Directors have confirmed that the capital expenditures for our Binzhou Manufacturing Base Phase I will be funded by our cash generated from our operating activities and the proceeds from the Listing. We will arrange for our equipment suppliers to provide us with necessary technological support and training. We started the construction of our Binzhou Manufacturing Base Phase II in December 2010. Our Binzhou Manufacturing Base Phase II will have a planned production capacity of approximately 300,000 tons of aluminum alloy products. The budgeted expenditures for the Binzhou Manufacturing Base Phase II are approximately RMB3.9 billion. We expect to start production at our Binzhou Manufacturing

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Base Phase II in June 2011 upon partial completion of this project and fully complete the construction of this project in July 2011. Our Binzhou Manufacturing Base Phase III will have a planned production capacity of approximately 300,000 tons of aluminum alloy products. We expect to start the construction of our Binzhou Manufacturing Base Phase III in the second half of 2011 and complete the construction of this project in the first half of 2012. The budgeted expenditures for the Binzhou Manufacturing Base Phase III are approximately RMB3.9 billion. We have not applied for any approvals from or made any filings with relevant regulatory authorities for the Binzhou Manufacturing Base Phase III. See “Risk Factors – Risks Relating to Our Business – We may not be able to manage our expansion effectively or complete our expansion projects as expected.” The production techniques and the products of the Binzhou Manufacturing Base Phase III will be essentially the same as Phase I and Phase II.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that we have obtained all necessary approvals and permits and completed filings for our existing production facilities and production facilities under construction, including the trial production of our Binzhou Manufacturing Base Phase I.

ELECTRICITY SUPPLY

Electricity is also one of the principal cost components in our production. Smelting aluminum requires a substantial and continuous supply of electricity. Our electricity cost was approximately RMB1,159.4 million, RMB3,381.8 million, RMB3,870.9 million and RMB2,374.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, accounting for approximately 37.2%, 41.0%, 49.8% and 36.5% of our cost of sales during the same periods. As a result, the availability and cost of electricity are key considerations in our production. To further secure a stable electricity supply, we commenced the construction of our own thermal power station in 2005, which started to supply electricity to us in January 2007. The power station is located next to our Zouping Manufacturing Base, and the electricity generated is off the grid and is exclusively supplied to our operations. Generating electricity with our own power station costs less than purchasing electricity from external suppliers during the Track Record Period. The volume of electricity supplied by our own thermal power station accounted for approximately 22.7%, 33.5%, 30.1% and 57.4% of the volume of our total electricity consumption for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

The following table sets forth the volume of electricity purchased from external suppliers and the volume of electricity internally supplied by our thermal power station for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	(kWh)	(kWh)	(kWh)	(kWh)	(kWh)
External	3,335,976,884	5,872,027,939	7,263,594,077	5,676,017,393	4,283,473,242
Internal	977,421,518	2,962,361,425	3,134,830,375	2,166,239,652	5,759,894,077
Total	<u>4,313,398,402</u>	<u>8,834,389,364</u>	<u>10,398,424,452</u>	<u>7,842,257,045</u>	<u>10,043,367,319</u>

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Electricity suppliers

During the Track Record Period, we purchased electricity from two local electricity suppliers, Chuangye Group and Gaoxin Aluminum & Power. Gaoxin Aluminum & Power became our exclusive electricity provider in January 2010. The following table sets forth the amount of electricity we purchased from suppliers for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	Amount	Amount	Amount	Amount
	(RMB in millions)			
Chuangye Group	936.4	1,681.0	1,280.8	–
Gaoxin Aluminum & Power	–	688.2	1,929.8	1,243.9
Total	<u>936.4</u>	<u>2,369.2</u>	<u>3,210.6</u>	<u>1,243.9</u>

We entered into a long-term electricity supply agreement with Chuangye Group in June 2006, which had a term of four years and was terminated on December 31, 2009 by us. Pursuant to this agreement, the base price was RMB0.45 per kWh (inclusive of VAT, which equals to RMB0.38 per kWh exclusive of VAT) and subject to adjustment by reference to market price movements. We purchased electricity from Chuangye Group for an aggregate amount of approximately RMB936.4 million, RMB1,681.0 million and RMB1,280.8 million for 2007, 2008 and 2009, respectively.

We entered into an electricity supply agreement with Gaoxin Aluminum & Power in June 2008, and Gaoxin Aluminum & Power started to supply off-the-grid electricity to us in July 2008. In China, as off-the-grid electricity does not use the state-owned grid system for transmission, the price of off-the-grid electricity does not include the grid transmission fee, and as a result, is lower than that of on-the-grid electricity. As of the Latest Practicable Date, Gaoxin Aluminum & Power had an installed capacity of 1,280 MW. Pursuant to this electricity supply agreement, the base price is RMB0.34 per kWh (inclusive of VAT, which equals to RMB0.29 per kWh exclusive of VAT), assuming that the base price of coal with a heat value of 5,000 kilocalories per kilogram is at RMB700 per ton (inclusive of VAT, which equals to approximately RMB598 per ton exclusive of VAT), which is subject to adjustment through negotiation if the price fluctuation of coal exceeds 20%. This electricity supply agreement does not have a definite term and it will remain effective unless it is terminated by a 90-day prior written notice provided by any party. Pursuant to this electricity supply agreement, Gaoxin Aluminum & Power built a power network to connect our facilities to the generators. The construction cost was reimbursed by us and was amortized and included in the electricity price that we actually paid to Gaoxin Aluminum & Power from June 2008 to December 2009, which was fully settled as of December 31, 2009. We have recognized such construction cost as part of the electricity purchase price in our cost of sales in 2008 and 2009. Our Directors have confirmed that it is a market norm for the customers to bear the construction cost of power networks in the off-the-grid electricity market.

We purchased electricity from Gaoxin Aluminum & Power for an aggregate amount of approximately RMB688.2 million, RMB1,929.8 million and RMB1,243.9 million for 2008, 2009 and the nine months ended September 30, 2010, respectively, accounting for approximately 20.4%, 49.9% and 52.4% of our total electricity cost for the same periods, respectively. We usually make full payment before we receive electricity from Gaoxin Aluminum & Power. We make prepayments in several instalments to Gaoxin Aluminum & Power every month and Gaoxin Aluminum & Power settles the purchase price of electricity with us by issuing invoices to us at the end of every month based on our actual purchase amount. The

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amount of each such prepayment is determined based on the estimated amount of electricity to be consumed during the period covered by such prepayment. During the Track Record Period, we sometimes made such prepayments to Gaoxin Aluminum & Power by endorsed bank bills. On June 20, 2008, we entered into an agreement with Gaoxin Aluminum & Power, pursuant to which we agreed to be responsible for the finance costs incurred by Gaoxin Aluminum & Power in relation to discounting such endorsed bank bills. This agreement expired on December 31, 2009. Gaoxin Aluminum & Power also supplies electricity to companies in chemical and other industries and residents in the region where it carries out its business in Zouping County. Our PRC legal advisors, Zong Heng Law Firm, have advised us that the supply of electricity by Gaoxin Aluminum & Power to our Group complies with the applicable PRC laws and regulations as Gaoxin Aluminum & Power is permitted by relevant PRC governmental authorities to generate and supply electricity. As advised by Gaoxin Aluminum & Power, it had more than 110 electricity customers as of the Latest Practicable Date, and we were its largest electricity customer for the nine months ended September 30, 2010.

Gaoxin Aluminum & Power is in the process of expanding its installed capacity by 600 MW. As a result, our Directors believe that Gaoxin Aluminum & Power is able to provide us with a stable, sufficient and low-cost supply of electricity in the long run. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.” Our Directors have confirmed that, during the Track Record Period, we did not experience any interruption in the supply of electricity from our suppliers.

However, we do not have any alternative arrangement of electricity supply. For the nine months ended September 30, 2010, our own power station was able to produce approximately 57.4% of our total consumption of electricity. In addition, our Directors believe we can procure off-the-grid or on-the-grid electricity from third party suppliers, although such electricity may be more expensive than the electricity supplied to us by Gaoxin Aluminum & Power. In particular, on June 29, 2010, we entered into a memorandum of understanding with Zouping Electricity, a state-owned power grid, pursuant to which Zouping Electricity agreed to supply electricity to us at a volume as we may require upon a 14-day prior written notice from us. The price of the electricity will be based on the then on-the-grid electricity price as stipulated by the government, which may be higher than the price of the electricity supplied to us by Gaoxin Aluminum & Power. However, it is impracticable to estimate the increased costs of electricity as such alternative supplies will only be obtained on a contingent basis and the terms and conditions for such alternatives will depend on factors, including, among other things, the amount of electricity required, and therefore cannot be accurately ascertained until (and if) such contingencies materialize. As agreed by Zouping Electricity and us, this memorandum of understanding is not legally binding. We cannot assure you that Zouping Electricity will fully honor its obligations under this memorandum of understanding. If we are unable to find alternative sources of electricity at commercially acceptable prices or terms in a timely manner, or at all, it would have a material adverse effect on our business, financial condition and results of operations. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”

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The following table sets forth our average electricity purchase price per kWh and the benchmark price of electricity sold by electricity suppliers to the state-owned grid in Shandong Province for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB/kWh)			
Average electricity purchase price	0.385	0.403 ⁽¹⁾	0.442 ⁽¹⁾	0.291 ⁽²⁾
Benchmark price ⁽³⁾	0.303	0.311 ⁽⁴⁾	0.318	0.318

- (1) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power network by Gaoxin Aluminum & Power. See “Business – Electricity Supply – Electricity suppliers.”
- (2) Our average purchase price of electricity for the nine months ended September 30, 2010 was lower than that of 2008 and 2009, which was primarily due to the fact that the construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power’s generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin Aluminum & Power for the nine months ended September 30, 2010 was lower than the price of electricity purchased by us from Chuangye Group for 2008 and 2009.
- (3) The benchmark price is set by the PRC government and it refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier’s operations and other factors.
- (4) This is the average benchmark price as the benchmark price was RMB0.303 per kWh from January 1, 2008 to June 30, 2008, and RMB0.318 from July 1, 2008 to December 31, 2008.

Our Directors have confirmed that the price of electricity supplied to us by Gaoxin Aluminum & Power was determined through arm’s length negotiation between Gaoxin Aluminum & Power and us. Assuming that we had purchased electricity at the benchmark price for the nine months ended September 30, 2010 and that all other factors, including change in inventories, remain unchanged, our electricity cost would have increased by RMB119.5 million and our net profit of continuing operations would have been decreased to RMB2,875.8 million.

Other than Chuangye Group, none of our Directors (or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of our electricity suppliers during the Track Record Period.

Our thermal power station

Power generation

Our thermal power station is designed by Central Southern China Electric Power Design Institute, which is one of the major electric design institutes in China. Our power station was developed in two phases, each of which has four sets of electricity generators. The construction of phase one commenced in October 2005. Phase one started to supply electricity to our operations in January 2007. The construction of phase two commenced in September 2006 and the last set of generators of phase two started to supply electricity to our operations in February 2010. Our thermal power station has also provided electricity to our Binzhou Manufacturing Base Phase I since October 2010. As of the Latest Practicable Date, our thermal power station had an installed generation capacity of 1,080 MW.

Theoretically, the maximum utilization hours of a power plant is 8,760 hours per year. The utilization rate of a power station refers to the amount of the average utilization hours in a year divided by 8,760 hours. The average utilization hours of our Group were approximately 3,635 hours, 5,379 hours and 4,009 hours for 2007, 2008 and 2009, respectively, and the utilization rate was approximately 41.5%, 61.4% and 45.8%

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during the same periods. For the nine months ended September 30, 2010, the annualized average utilization hours of our thermal power station was approximately 7,846 hours, representing an annualized utilization rate of approximately 89.6% during such period.

The cost of electricity generated in-house was approximately RMB283.0 million, RMB1,085.4 million, RMB917.4 million and RMB1,131.0 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Heat supply

Our power station also produces heat in the form of steam, which is a byproduct of power generation. As part of the agency arrangement pursuant to the Agency Agreement, which expired on December 31, 2009, we supplied steam to Chuangye Group for its alumina production free of charge. For 2007, 2008 and 2009, we provided approximately 121,647 tons, 603,817 tons and 2,104,252 tons of steam to Chuangye Group, respectively. See “– Discontinued Operations – Alumina Agency Business.” We started to provide steam to Gaoxin Aluminum & Power for its alumina production from January 1, 2010 at a price of RMB150 per ton (inclusive of VAT, which equals to approximately RMB132.7 per ton exclusive of VAT). This price was determined with reference to the local market price at the time when we entered into the steam supply agreement with Gaoxin Aluminum & Power, as well as a discount of RMB50 to RMB70 per ton of steam. Our Directors have confirmed that we provide such price discount to Gaoxin Aluminum & Power because (i) Gaoxin Aluminum & Power is in close proximity to our power station, which saves our transportation cost; (ii) the existing steam transportation system saves us additional construction cost; and (iii) steam is a byproduct of electricity generation and by selling steam, we can improve the utilization rate of our power generation facilities and reduce our electricity generation cost. For the nine months ended September 30, 2010, we supplied approximately 3,873,001 tons of steam to Gaoxin Aluminum & Power for approximately RMB514.1 million, accounting for approximately 4.9% of our revenue of continuing operations during the same period.

Coal procurement

Our thermal power station uses coal as fuel to heat water. We purchase meagre lean coal for power generation, which usually has an average calorific value of 4,800 kilocalories to 5,300 kilocalories per kilogram and a sulfur-bearing rate below 2.5%.

We purchase coal from a number of coal suppliers. Our coal procurement personnel are based in Shanxi Province, Hebei Province and Inner Mongolia, and they carry out market research with respect to the production, price, transportation cost and inventory level of coal in their respective regions and report such information to our headquarters. In particular, when there is any actual or potential dramatic coal price change in the market, our coal procurement personnel will collect and send to our headquarters relevant market information and our headquarters will adjust our inventory level of coal to address the price risk. We have not entered into any long-term coal supply agreements with our coal suppliers. We have implemented a competitive bidding system among our coal suppliers to ensure our coal supply is of low cost and high quality. We send our bidding invitation in the middle of every month, which specifies the time and location of the bidding and the quantity and quality of the coal. The bidding is usually held at 2:00 pm on the 16th of every month and takes three rounds. When we select coal suppliers, we not only take into account the bidding price, but also carefully consider the candidate’s credit history and ability to supply coal at satisfactory quality on time. We usually pay the purchase price to a coal supplier when the coal supplied by such supplier reaches certain minimum amount. Historically, we have been able to purchase sufficient coal in the open market to meet our requirements. In addition, we purchased coal with a total price of approximately RMB442.1 million from Chuangye Group for 2009, which was priced at the then prevailing market prices of coal and accounted for approximately 50.9% of the amount of coal purchased by us for 2009. This was primarily because our secured coal supply was not enough for our own

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electricity generating for that period due to the fact that we primarily purchased coal from the spot market in 2009, and we had to procure coal from Chuangye Group, which was our related party and had stable and sufficient coal supply due to its long-time operations of its own thermal power station and established long-term relationships with its coal suppliers, and such coal was all used for our power generation. Our Group has been able to procure sufficient coal for our power generation since then by entering into one-year coal supply agreements with some of our coal suppliers. We purchased coal with a total amount of approximately RMB224.3 million, RMB899.0 million, RMB869.1 million and RMB1,354.0 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, including the coal used in the generation of electricity and steam. The purchase cost of coal accounted for approximately 7.2%, 10.9%, 11.2% and 20.8% of our total cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

The following table sets forth our average coal consumption cost and the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB/ton)			
Average coal consumption cost ⁽¹⁾ . . .	415	661 ⁽²⁾	500	578
Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories ⁽³⁾	359	543	445	544

Source: www.cctd.com.cn (中國煤炭市場網)

1. Our Group's average coal consumption cost is inclusive of transportation cost in China.
2. Our Group's average coal consumption cost was significantly higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories for 2008, which was primarily due to the fact that a large percentage of the coal consumed by our Group was of an average calorific value higher than 5,000 kilocalories for 2008.
3. According to Antaike, the Qinhuangdao coal price is the most frequently quoted benchmark price in the coal markets in Shandong Province and other regions in China, and is inclusive of transportation cost of coal transported to Qinhuangdao port, which is the largest coal shipping port in the world.

SALES AND MARKETING

Sales and marketing team

We sell our products through our own sales and marketing team. As of September 30, 2010, we employed 18 sales and marketing personnel.

The head office of our sales and marketing team is located in our manufacturing bases in Zouping County, Shandong Province. The head office is in charge of the overall management of our sales and marketing activities, including market research and development, customer relations, implementation of our sales plan and supervision of our branch offices. As our production schedule is based on sales, the head office also closely works with our production department to ensure timely production and delivery of our aluminum products.

We have also established six sales and marketing teams covering Northeastern, Southern, Eastern and Northern China, where our customers are located. Our sales and marketing teams are responsible for the sales and marketing activities in their own regions. They are responsible for identifying business and market opportunities, engaging in business networking, strengthening relationships with our existing customers while cultivating relationships with potential customers, formulating monthly sales plans and collecting receivables from our customers.

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Sales and marketing

Our sales and marketing team directly sells products to our customers. We usually approach our customers by visiting their offices or calling them. We are currently not a member of any futures exchanges. During the Track Record Period, we have not participated in any futures transactions.

We sell our aluminum products to customers in Northeastern, Southern, Eastern and Northern China. Molten aluminum alloy is our most popular product. All of our molten aluminum alloy and aluminum busbars customers are located in Zouping County and are in close proximity to our manufacturing bases. Our aluminum alloy ingots are sold to customers in regions other than Zouping County.

With the onset of the global economic downturn in the second half of 2008, some of the key end-user sectors for the aluminum industry, such as construction, electrical, transport and consumer durables, suffered a sharp contraction of demand globally. As a result, China's growth rate of aluminum production and consumption slowed down and the price of aluminum products experienced dramatic fluctuations in 2008 and 2009. In response, we closely monitored the market and negotiated purchase price of coal and other raw materials accordingly, reduced electricity consumption in our production process, strengthened our inventory management and quality control, optimized our manufacturing processes, and solidified our market position by establishing new sales and marketing teams covering Eastern and Southern China. See "Financial Information – Description of the Major Components of Our Results of Operations – Continuing operations – Cost of sales."

Sales contract terms

We usually enter into framework sales agreements with our customers, which provide for terms of quality, pricing, settlement, payment and planned monthly or annual sales volume. Our customers generally provide us with purchase orders on a monthly basis. The actual monthly volume delivered is negotiated between our customers and us by taking into account the order volume and our capacity for the corresponding month. There is usually no minimum purchase amount required in our framework sales agreements. A sales framework agreement usually has a term between one year to three years. We also enter into individual sales contracts with our customers.

The quality of our products is subject to the national quality standards issued by the PRC government. See "– Quality Control." We are generally responsible for the delivery of our products to customers, except that aluminum busbars are picked up by our customers. In addition, our sales contracts generally provide that, once the products leave our manufacturing site, the ownership of such products are immediately transferred to our customers. As a result, we are not responsible for the risk of losses occurring during transportation. Moreover, if there is any dispute over product quality, the customer must raise such issue within three days after receipt of the relevant products. We did not experience any product return during the Track Record Period. For products sold in China other than Guangdong Province, the price is determined with reference to the mean price provided by the Yangtze River Non-ferrous Metals Spot Market, and for products sold in Guangdong Province, the price is based on the mean price provided by Nanchu Non-ferrous Metals Spot Market in Guangdong Province, while a premium or discount may be applied from time to time. We usually require our customers to make full payments before delivery. Our customers may choose to pay us by cash or endorsed bank bills.

For our molten aluminum alloy products, our customers usually make prepayments to us on a weekly basis by reference to the average price of our molten aluminum products in the preceding week. However, due to the fluctuation in the price of the molten aluminum alloy, such prepayments may be less than the total price of the molten aluminum alloy delivered by us. For aluminum alloy ingots, our customers usually make prepayments by reference to the then prevailing market price. However, consistent with the general industry practice, for any delivery which may take several days or longer, the actual price is often determined by reference to the price of the delivery date rather than the prepayment date, and there may

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be price differences between the price of the prepayment date and the price of the delivery date, which means the prepayments may fall short of the total price of the aluminum alloy ingots delivered by us. As a result, we will have trade receivables. We generally collect such balance within 90 days. The total trade receivables relating to our continuing operations amounted to approximately RMB83.9 million, RMB34.6 million, RMB44.4 million and RMB6.5 million as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively, accounting for approximately 1.9%, 0.4%, 0.5% and 0.1% of the total sales of our continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010.

Our customers

We sell all of our aluminum products to domestic customers, who are located mainly in Shandong Province as well as in other regions of China, such as in Northeastern, Southern, Eastern and Northern China. Our five largest customers accounted for approximately 63.1%, 66.1%, 58.0% and 74.1% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our largest customer accounted for approximately 43.9%, 24.1%, 20.0% and 41.5% of our revenue of continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Sales volume of our products was approximately 276,712 tons, 610,057 tons, 731,043 tons and 747,027 tons for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

During the Track Record Period, our customers included downstream manufacturers, who processed our aluminum alloy products into aluminum fabrication products, and traders, who in turn resold our products to downstream aluminum fabrication product manufacturers or other traders. There is no difference in pricing strategy towards these two groups of customers. During the Track Record Period, our five largest customers were located in Zouping County and other areas in Shandong Province, Beijing, Guangdong Province and Jiangsu Province. During the Track Record Period, among our five largest customers, those located in Zouping County are downstream fabrication aluminum product manufacturers, and those located outside of Zouping County are traders. As of the Latest Practicable Date, we had 55 customers.

As all of our molten aluminum alloy customers are located in Zouping County, there is a high geographic concentration of our customers. Our revenue of molten aluminum alloy accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue of aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. As of the Latest Practicable Date, we had 12 molten aluminum alloy customers. See “Risk Factors – Risks Relating to Our Business – We derive a significant portion of our revenue of aluminum products from Zouping County, Shandong Province through the sales of molten aluminum alloy.” As of the Latest Practicable Date, we had 43 aluminum alloy ingot customers, which are located in Shandong Province, Beijing, Tianjin, Hebei Province, Jiangsu Province, Guangdong Province, Liaoning Province and Zhejiang Province. Among these customers, there were 15 traders and 28 downstream aluminum fabrication product manufacturers.

Our Directors believe that we are not dependent on any particular customer. Since our products are commodities that are readily tradable in the market, if a customer fails to perform its obligations under a sales agreement with us, we believe that we can find a substitute customer in the market. See “Risk Factors – Risks Relating to Our Business – If any of our large customers reduces its purchases of, or fails to pay for, our business, products, our financial condition and results of operations will be materially and adversely affected.”

None of our Directors (or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of our five largest customers during the Track Record Period.

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PROCUREMENT

We procure raw materials and energy, including electricity and coal, from external suppliers. Our five largest suppliers (including Chuangye Group) together accounted for approximately 61.5%, 60.9%, 73.3% and 68.8%, respectively, of our total procurement for 2007, 2008, 2009 and the nine months ended September 30, 2010. Chuangye Group was our largest supplier for 2007, 2008 and 2009, accounting for approximately 53.8%, 46.1% and 46.3% of our total procurement during the same periods. We purchased alumina and electricity from Gaoxin Aluminum & Power exclusively for the nine months ended September 30, 2010 and Gaoxin Aluminum & Power was our largest supplier for the nine months ended September 30, 2010, accounting for approximately 56.7% of our total procurement during that period.

Gaoxin Aluminum & Power is a limited liability company incorporated in Zouping County, Shandong Province under the laws of the PRC on January 24, 2007, which is wholly-owned by Shandong Yunda Investment Management Company Limited. The shareholders of Shandong Yunda Investment Management Company are the Labor Union Committee of Shandong Zouping Economic Development Zone, or the Labor Union Committee, Shandong Zouping Kaida Real Estate Company Limited and Zouping Economic Development Zone Property Management Company, which hold approximately 74.6%, 10.4% and 15.0%, respectively, of the equity interests of Shandong Yunda Investment Management Company Limited. The members of the management committee of the Labor Union Committee are the principal officials of the Shandong Zouping Economic Development Zone. As confirmed by Gaoxin Aluminum & Power, none of its senior management member or its sole director holds any position in the PRC government. Gaoxin Aluminum & Power is an Independent Third Party. As advised by Gaoxin Aluminum & Power, it has not had any change in its shareholding structure since incorporation.

As advised by Gaoxin Aluminum & Power, we purchased approximately 48.1% of total volume of alumina sold by Gaoxin Aluminum & Power for the nine months ended September 30, 2010, and we were Gaoxin Aluminum & Power's largest customer for the same period. As advised by Gaoxin Aluminum & Power, it had more than 150 alumina customers as of the Latest Practicable Date. As advised by Gaoxin Aluminum & Power, after the acquisition of the alumina business, Gaoxin Aluminum & Power's alumina business was profit making for 2010. In addition, as advised by Gaoxin Aluminum & Power, it had an aggregate designed annual production capacity of approximately 4,000,000 tons of alumina and more than 8,000 employees as of September 30, 2010. As advised by Gaoxin Aluminum & Power, it was profit making for both 2009 and 2010 and its net assets value as of December 31, 2010 was more than RMB5.8 billion. Gaoxin Aluminum & Power indicated that its current alumina pricing arrangement with our Group is commercially sustainable for its business. However, if there is any material adverse change in Gaoxin Aluminum & Power's business, financial condition and results of operations, or it is unwilling or unable to provide us with high quality alumina and electricity in required quantities and at commercially acceptable prices, or if it enters into bankruptcy proceedings, our business, financial condition and results of operations would be materially and adversely affected. See "Risk Factors – Risks Relating to Our Business – If there is any material adverse change in Gaoxin Aluminum & Power's business, financial condition and results of operations, our business, financial condition and results of operations would be materially and adversely affected."

According to Gaoxin Aluminum & Power, it currently has five bauxite suppliers in Indonesia and India. As advised by Gaoxin Aluminum & Power, as of December 31, 2010, approximately 69.7% of property, plant and equipment was attributable to its electricity business and approximately 30.3% of property, plant and equipment was attributable to its alumina business. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power for approximately RMB3.1 billion based on the valuation of the alumina production facilities on December 25, 2009 by Shandong Jianxin Asset Appraisal Company Limited, an independent third party valuer, which was fully paid by Gaoxin Aluminum & Power in instalments in cash by April 2010. As advised by Gaoxin Aluminum & Power, it used funds generated in its internally generated cash flow and shareholder loans. See "Business – Procurement."

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Both our Group and our Controlling Shareholders have confirmed that none of our Group, our Controlling Shareholders, the Directors or their respective associates has directly or indirectly provided assistance of any form to finance Gaoxin Aluminum & Power's acquisition of these alumina production facilities from Chuangye Group, including providing any guarantee to the loans that Gaoxin Aluminum & Power might have obtained to finance this acquisition or entering into any agreement to so assist.

Since the establishment of Gaoxin Aluminum & Power, there has been no management or director overlap between Gaoxin Aluminum & Power and us, or between Gaoxin Aluminum & Power and Chuangye Group. There was no overlap of employees between Chuangye Group and us before the disposal of the alumina production business to Gaoxin Aluminum & Power, and there has been no overlap of employees between Gaoxin Aluminum & Power and us after such disposal.

As confirmed by the Labor Union Committee, while it has over 300 members, its decision-making is vested in Shandong Zouping Economic Development Zone Management Committee, or the Management Committee. The Management Committee is a governmental body established by the People's Government of Zouping County and is in charge of the daily administration of the Zouping Economic Development Zone. The members of the Management Committee are not otherwise involved in the operations of the People's Governments of Binzhou City or Zouping County.

According to the confirmation letter issued by the People's Governments of Binzhou City dated December 10, 2010 and the confirmation letter issued by Zouping County dated December 9, 2010:

- (i) the senior management members of the Management Committee did not take up any position in any department within the People's Governments of Binzhou City or Zouping County; and
- (ii) each of the People's Governments of Binzhou City and Zouping County exercises their power within their jurisdictions in accordance with the relevant laws and regulations independently and is not subject to any influence of the Management Committee.

Our production department usually provides our procurement department with a monthly raw materials requirement schedule for its production need for the next month. In accordance with our production requirements and inventory policy, our procurement department will arrange the selection of suppliers and procurement of raw materials.

Other than as disclosed in this prospectus, none of our Directors (or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of our five largest suppliers during the Track Record Period.

Raw Materials

Our procurement department is responsible for the assessment and selection of suppliers and procurement of raw materials. The principal raw materials which we use in production include alumina and carbon anodes. The following table illustrates the total purchase amount, purchase volume and percentage of each raw material for the periods indicated:

	Year ended December 31,						Nine months ended September 30,								
	2007			2008			2009			2010					
	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount			
Alumina	1,374,721	577,978	63.2%	2,995,979	1,200,643	69.1%	2,382,343	1,391,506	73.4%	1,836,301	1,030,307	70.1%	2,272,742	1,429,405	61.6%
Carbon anodes	545,844	188,077	25.1%	1,232,804	349,487	28.4%	769,039	372,361	23.7%	552,541	270,073	21.1%	1,073,058	346,401	29.1%
Others ¹	253,005	-	11.7%	110,063	-	2.5%	92,801	-	2.9%	231,169	-	-	343,124	-	9.3%
Total	2,173,570	-	100.0%	4,338,846	-	100.0%	3,244,183	-	100.0%	2,620,012	-	100.0%	3,688,924	-	100.0%

Note:

- Others include fluorides, metals used in producing aluminum alloy, slag removal flux, refining flux, sodium carbonate, magnesium fluoride and other materials.

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Procurement of alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 63.2%, 69.1%, 73.4% and 61.6% of our total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. For 2007, 2008 and 2009, Chuangye Group was our largest supplier of raw materials and our sole supplier of alumina. Most of our suppliers are raw materials manufacturers, while the others are raw materials traders. See “Risk Factors – Risks Relating to Our Business – If we fail to obtain sufficient amounts of raw materials that meet our quality standards and/or at commercially acceptable prices, our business, financial condition and results of operations would be materially and adversely affected.” All of our suppliers are located in China. Gaoxin Aluminum & Power became our largest supplier and sole alumina supplier in 2010. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected” and “Risk Factors – Risks Relating to Our Business – If there is any material adverse change in Gaoxin Aluminum & Power’s business, financial condition and results of operations, our business, financial condition and results of operations would be materially and adversely affected.” Our aggregate alumina purchase costs amounted to approximately RMB1,374.7 million, RMB2,996.0 million, RMB2,382.3 million and RMB2,272.7 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, and the average purchase price that we paid was approximately RMB2,379 per ton, RMB2,495 per ton, RMB1,712 per ton and RMB1,590 per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina was approximately RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, in China.

Alumina procurement from Chuangye Group

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009. In May 2006, we entered into the Agency Agreement with Chuangye Group, pursuant to which we procured alumina from Chuangye Group at production cost. This agreement expired on December 31, 2009. We purchased alumina from Chuangye Group for an aggregate amount of approximately RMB1,374.7 million, RMB2,996.0 million and RMB2,382.3 million for 2007, 2008 and 2009 respectively, and the average purchase price was approximately RMB2,379 per ton, RMB2,495 per ton and RMB1,712 per ton during the same period. According to Antaike, the average spot price of alumina in China was approximately RMB3,148 per ton, RMB2,885 per ton and RMB2,000 per ton for 2007, 2008 and 2009, respectively. Our Directors confirm that our cost of alumina was generally in line with the prevailing market prices, taking into account the facts that our alumina purchase orders were for long term and of large quantity. We were Chuangye Group’s largest customer of its alumina products for 2007, 2008 and 2009. The other customers of Chuangye Group’s alumina products were aluminum and aluminum alloy manufacturers in more than 20 provinces in China. See “– Discontinued Operations.”

Alumina Procurement from Gaoxin Aluminum & Power

In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power, an Independent Third Party. Our Directors and the Sole Sponsor are of the view that Gaoxin Aluminum & Power and its associates is an independent third party to Chuangye Group. As confirmed by Chuangye Group, it sold its alumina production facilities to focus on its textile business, and Gaoxin Aluminum & Power had financial capability to purchase the alumina production facilities at that time. As advised by Gaoxin Aluminum & Power, it acquired the alumina production facilities with a view to leveraging its own electricity generating capacity. We entered into an alumina supply agreement with Gaoxin Aluminum & Power on December 25, 2009, which was supplemented on December 27, 2009 and January 6, 2010. This agreement has a term from January 1, 2010 to December 31, 2012 and is renewable upon expiration. Our Directors have confirmed that the terms of this alumina supply arrangement are based on arm’s length

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negotiation. Pursuant to the alumina supply agreement, we and Gaoxin Aluminum & Power agreed to determine the base price of alumina provided to our Group with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of the relevant year. In addition, Gaoxin Aluminum & Power agreed to provide us with price discounts, and the price of alumina provided to us by Gaoxin Aluminum & Power is equal to the price of alumina offered to other third parties by Gaoxin Aluminum & Power minus an amount reflecting the following factors:

- our long-term commitment;
- that our purchase volume is more than one million tons each year, which materially reduces Gaoxin Aluminum & Power's unit cost of alumina production;
- that we pick up the alumina in bulk by ourselves, which materially reduces the packaging and distribution costs of Gaoxin Aluminum & Power; and
- that we maintain a deposit of RMB400 million, which provides Gaoxin Aluminum & Power with extra liquidity.

Such price discounts are determined through negotiation between Gaoxin Aluminum & Power and us from time to time, and are subject to our actual purchase volume and the supply and demand dynamics in the alumina and aluminum industries. Our Directors believe that if we fail to meet the conditions of the price discount stipulated in the alumina supply agreement, we may have to re-negotiate the pricing terms with Gaoxin Aluminum & Power. In addition, if the fluctuation of alumina market price reaches or exceeds 10% of the base price of the current year, and if such fluctuation remains for no less than two months, the alumina price under the framework agreement will be adjusted accordingly. Within one month immediately prior to the expiration of the alumina supply agreement, if Gaoxin Aluminum & Power and we decide not to extend the alumina supply agreement upon expiration, we may choose to offset the RMB400 million deposit against the alumina purchase price. In case there is remaining deposit after the offset, we are entitled to offset the deposit by any amount we owe Gaoxin Aluminum & Power. Moreover, if there is still remaining deposit after the offset of the amount we owe Gaoxin Aluminum & Power, Gaoxin Aluminum & Power has undertaken to repay the balance of the deposit to us within 14 days upon our written request. Our Directors believe that payment of such deposit is in line with common industry practice and we will be able to recover such deposit upon the expiration or termination of this alumina supply agreement. As advised by our PRC legal advisors, Zong Heng Law Firm, Gaoxin Aluminum & Power has obtained relevant governmental approvals for its alumina production. Our PRC legal advisors, Zong Heng Law Firm, have further advised us that the supply of alumina by Gaoxin Aluminum & Power to our Group complies with applicable PRC laws and regulations as supply of alumina is within Gaoxin Aluminum & Power's business scope. As at the Latest Practicable Date, Zong Heng Law Firm are not aware of any proposed material change in the PRC laws and regulations governing alumina production.

For the nine months ended September 30, 2010, we purchased alumina with an aggregate amount of approximately RMB2,272.7 million from Gaoxin Aluminum & Power with an average purchase price of approximately RMB1,590.0 per ton. According to Antaike, the average spot price of alumina was approximately RMB2,326 per ton during the same period. In addition, Gaoxin Aluminum & Power has also provided alumina to our Binzhou Manufacturing Base Phase I since its trial production in late September 2010. We usually make full payments before we pick up alumina from Gaoxin Aluminum & Power. We usually make prepayments in several instalments to Gaoxin Aluminum & Power every month and Gaoxin Aluminum & Power settles the purchase price of alumina with us by issuing invoices to us at the end of every month based on our actual purchase amount. The amount of each such prepayment is determined based on the estimated amount of alumina to be consumed during the period covered by such prepayment. For the nine months ended September 30, 2010, we were Gaoxin Aluminum & Power's largest customer for its alumina products. Our Directors have confirmed that, during the Track Record Period, we have not experienced any interruption of the supply of alumina from the suppliers.

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Our purchase of alumina as a percentage of total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010 was approximately 63.2%, 69.1%, 73.4% and 61.6%, respectively, and was approximately 30.5%, 34.2%, 27.5% and 22.7% as a percentage of total revenue of aluminum products during the same periods. Purchase of alumina accounted for approximately 44.1%, 36.4%, 30.7% and 34.9% of the cost of sales of our aluminum products for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. However, as the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin Aluminum & Power are different, our historical raw materials cost and product cost structure may not be indicative of our raw materials cost and product cost structure in the future. As a result, investors may have difficulties in evaluating our business and prospects because our historical performance may not be indicative of our business, financial condition and results of operations in the future. See “Risk Factors – Risks Relating to Our Business – It may be difficult for investors to evaluate our business and prospects due to our limited operating history and changes in our cost structure.”

The following table sets forth our average purchase price of alumina from Chuangye Group for 2007, 2008 and 2009 and from Gaoxin Aluminum & Power for the nine months ended September 30, 2010, and the average spot market price of alumina in China, according to Antaike, for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB)	(RMB)	(RMB)	(RMB)
Chuangye Group	2,379	2,495	1,712	–
Gaoxin Aluminum & Power	–	–	–	1,590
Average spot market price of alumina in China	3,148	2,885	2,000	2,326

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. Our purchase price of alumina provided by Chuangye Group increased from RMB2,379 per ton for 2007 to RMB2,495 per ton for 2008, and decreased to RMB1,712 per ton for 2009, which was primarily due to the price fluctuations of bauxite, which increased from 2007 to 2008, and then decreased from 2008 to 2009, according to Antaike. Although, according to Antaike, bauxite prices rebounded slightly for the nine months ended September 30, 2010, such prices still remained relatively low. As a result of and based on our negotiation with Gaoxin Aluminum & Power, our purchase price of alumina provided by Gaoxin Aluminum & Power further decreased to RMB1,590 per ton for the same period. Due to our arrangements with Chuangye Group and Gaoxin Aluminum & Power described above, our average purchase prices of alumina from Chuangye Group and Gaoxin Aluminum & Power were lower than the average spot market prices of alumina in China during the Track Record Period. If we had purchased alumina at the average spot market prices in China during the Track Record Period, and assuming all other factors, including change in inventories, remain unchanged, our total purchase costs of alumina would have increased by approximately RMB444.8 million, RMB467.9 million, RMB400.7 million and RMB1,052.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

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The following table sets forth, assuming that we purchased alumina at average spot market price in China and that all other factors, including change in inventories, remain unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
Net profit of continuing operations (before minority interests)	903.9	283.6	577.1	2,965.4
Difference ⁽¹⁾	(298.0)	(350.9)	(300.5)	(789.1)
Adjusted net profit of continuing operations (before minority interests)	605.9	(67.3)	276.6	2,176.3

(1) Difference = actual purchase volume of alumina in the relevant period × (weighted average actual purchase price of alumina by our Group in the relevant period – average spot market price of alumina in China in the relevant period) × (1- statutory tax rate of the relevant period)

Our Company and the Sole Sponsor are of the view that this analysis on the above-mentioned scenario is accurate and reasonable.

Since alumina is a commodity readily tradable in the market and, according to Antaike, there is currently an over-supply of alumina in Shandong Province and in other regions of China, we do not have any alternative arrangement for the supply of alumina. In particular, according to Antaike, the aggregate annual production capacity of alumina in China for 2009 was approximately 34.8 million tons, while the aggregate production volume was approximately 23.9 million tons. During the same period, according to Antaike, the aggregate annual production capacity of alumina in Shandong Province was approximately 11.8 million tons, while the aggregate production volume was approximately 7.5 million tons. In addition, according to Antaike, alumina imported by China accounted for approximately 15% of China's domestic alumina supply in 2008. Import volume of alumina for 2009 increased as alumina prices in the international market were generally lower than those in the domestic market, according to Antaike.

Our Directors believe that we are able to source alumina from alternative suppliers domestically or overseas in a timely manner in case Gaoxin Aluminum & Power is not able to provide our Group with alumina in sufficient quantities or at all. However, the price of such alumina supplied by third party suppliers (other than Gaoxin Aluminum & Power) may be significantly higher than that of the alumina supplied to us by Gaoxin Aluminum & Power. In January 2011, we received feedback from four major alumina suppliers, two in Shandong Province, one in Beijing and one in Henan Province. These alumina suppliers were willing to supply alumina to us. These potential alternative suppliers had a total annual capacity to produce or supply approximately 9 million tons of alumina, and they indicated that they were able to provide approximately 250,000 tons of alumina to us every month, which our Directors believe should be adequate to meet our demand. In addition, they were also willing to provide us with certain price discounts because we are a reputable aluminum manufacturer in China and have a large demand for alumina. However, as these suppliers are not as close to our production bases as Gaoxin Aluminum & Power, our Directors believe the price discounts provided by these suppliers would be smaller than that

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provided by Gaoxin Aluminum & Power. In addition, these commitments are not legally binding, and we are not able to guarantee you that these suppliers will fully honor their commitments in the future. We are not able to assure you that we will be able to find alternative sources of alumina at the same price level offered by Gaoxin Aluminum & Power or at otherwise commercially acceptable prices or terms in a timely manner, or at all. If we fail to do so, it would have a material adverse effect on our business, financial condition and results of operations. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”

Procurement of other raw materials

Our raw materials other than alumina and carbon anodes are generally procured through competitive bidding among our suppliers. We organize regular on-site biddings and online biddings for our raw materials suppliers. For carbon anodes, we negotiate the terms and conditions of the supply agreements with our suppliers. When we select suppliers, we not only take into account the bidding price, but also carefully consider the candidate’s credit history, the quality of the raw materials and feedback from our production department.

We have entered into long-term framework supply agreements with some of our suppliers to secure a stable supply of raw materials. Such long-term framework agreements usually have a term of three years. Pursuant to these supply agreements, our suppliers provide us with certain volumes of raw materials on a monthly basis. We have also entered into individual supply agreements with our suppliers based on bidding results. For the supply of carbon anodes and fluorides, the suppliers are responsible for delivery of the raw materials to our warehouse and the relevant expenses. We have the right to terminate the supply agreement if the quality is not satisfactory. We usually require the suppliers to make quality deposits with us, which will be deducted if the suppliers cancel or fail to perform the supply agreements. For the long-term framework supply agreements, the price is determined by reference to the market price. For the individual supply agreements, the price is determined through the bidding process. We received quality deposits that amounted to RMB149.9 million, RMB166.8 million, RMB79.7 million and RMB62.0 million as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively, including quality deposits made by raw material suppliers and quality deposits made by equipment suppliers.

We have entered into a long-term carbon anodes supply agreement with Aluminum Technology, which is wholly-owned by Chuangye Group. See “Connected Transactions – Non-exempt Continuing Connected Transactions.” The carbon anodes we purchased from Aluminum Technology amounted to approximately RMB23.8 million, RMB201.6 million, RMB162.8 million and RMB224.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

For carbon anodes, fluorides and other raw materials, we usually make payments after we check the quality of such raw materials and formally accept the delivery. We usually have a credit period of up to 60 days for these raw materials.

INVENTORY CONTROL

We had inventories, exclusive of those held for sale, of approximately RMB759.8 million, RMB744.0 million, RMB548.4 million and RMB864.3 million as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively. Our production and inventory plans are prepared based on our sales. We enter into sales contracts with customers based on our actual production capacity, and our sales and marketing team prepares the production plans and delivers the production plans to our production department, which arranges our inventory accordingly. We usually keep in stock enough raw materials for 15 days’ production requirement to ensure our continuous operations. We also keep in stock enough coal for 15 days’ power

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generation requirement, while from November to February, we usually keep enough coal for one month's requirement. We monitor and control our inventory levels of raw materials, work-in-progress and finished products to optimize our operations. We use an enterprise resource planning, or the ERP, system to ensure an efficient and effective management of our inventories. This ERP system keeps record of our inventories so that we have ready access to inventory levels and movement. We have management procedures that monitor the planning and allocation of warehouse space and inventory of raw materials and finished products to meet the delivery requirements and schedules. We also carry out daily inventory counts on our finished products to ensure that our records are up-to-date and there is no loss of inventory.

Since most of our inventories, including alumina, aluminum products and coal, are commodities which are readily tradable in the market and have a short production cycle, we generally do not have any obsolete inventories. Because molten aluminum alloy is produced pursuant to the purchase orders of our customers, which are all located in close proximity to our manufacturing bases, we are able to deliver the molten aluminum alloy directly from our smelters to our customers manufacturing sites immediately after the molten aluminum alloy is manufactured, which allows us to keep zero inventory of molten aluminum alloy. Our entire inventory is insured against fire and natural disasters. Our average turnover days of inventory, exclusive of those held for sale, were 64, 33, 30 and 30 for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. See "Financial Information – Inventories, Trade Receivables and Trade Payables."

QUALITY CONTROL

We believe that the quality of our products is crucial to our continued growth. We place strong emphasis on maintaining consistent quality in our products and services with involvement and commitment from all levels of our management and staff.

The PRC government has issued a series of mandatory national quality standards for aluminum products under various labels. The standards for our aluminum alloy products are set out in the documents GB/T 3190 – 2008, GB/T 8733 – 2007 and GB/T 1196 – 2002 published by the PRC government, which prescribe the national standards in relation to the different chemical components of aluminum alloys. Our aluminum alloy products are labelled as 6063 and 356Z.1 pursuant to these standards.

The following table sets forth the components of 6063 aluminum alloy under GB/T 3190 – 2008:

	Chemical components									Other		Al
	Si	Fe	Cu	Mn	Mg	Cr	Ni	Zn	Zr	Individual	Aggregate	
	6063	0.2-0.6	0.35	0.10	0.10	0.45-0.9	0.10	-	0.10	-	0.05	

The following table sets forth the components of 356Z.1 aluminum alloy under GB/T 8733 – 2007:

	Chemical components									Other		Al
	Si	Fe	Cu	Mn	Mg	Be	Zn	Sn	Pb	Individual	Aggregate	
	356Z.1	6.5-7.5	0.45	0.2	0.35	0.3-0.5	0.10	0.2	0.01	0.05	0.05	

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The standards for our aluminum busbars are set out in the document GB/T 1196 – 2002 published by the PRC government, which prescribes the national standards in relation to various areas including: (1) quality of primary aluminum; (2) sample test required to be conducted to examine the purity of primary aluminum; and (3) labelling, packaging, transportation and storage. The quality of primary aluminum is graded into seven levels based on the amount of impurities contained. Our aluminum busbars are graded A199.70A, which means the impurities contained in our aluminum busbars are no more than 0.3%.

We emphasize quality in our manufacturing processes. To closely monitor our manufacturing processes, we have established a quality control department. As of September 30, 2010, we had 390 quality control personnel. For inspection purposes, we use equipment, such as spectrographs and atomic absorption spectrometers, to analyze the chemical elements of our products. Furthermore, we have prepared a set of manuals and documents on standard production procedures and our employees are required to follow them to ensure the product quality. In order to meet the high quality standards of our customers, our quality control procedures are carried out at various stages of the manufacturing processes, including incoming, in-process and outgoing stages. In addition, we carry out regular quality control training sessions for our employees to promote quality control technologies as well as quality control awareness. Shandong Hongqiao obtained the ISO 9001 certification for our manufacturing facilities in April 2010. Due to our extensive and stringent quality control system, we did not have any sales returns during the Track Record Period.

RESEARCH AND DEVELOPMENT

Our research and development activities are led by Mr. Deng Wenqiang, who is responsible for the production, research and development of aluminum products of our Group. Our research and development activities focus on reduction of electricity consumption in our production, optimization of our processing technologies and improvement of product quality. We seek to enhance our capabilities by placing additional resources to our research and development team by way of recruitment of additional research and development staff, including engineers, and purchase of additional advanced machinery and equipment. We are in the process of developing our research and development center, and we intend to recruit more research and development personnel to develop new products, such as high value-added aluminum fabrication products, to procure advanced equipment for our laboratory to improve our production technology, enhance product quality and reduce production cost. Preparation for the center commenced in April 2010 and it is expected to be put into use in May 2011. We plan to develop our automatic and integrated work safety monitoring system. We also plan to develop cooperative relationships with research and academic institutions to diversify our product mix.

DELIVERY OF PRODUCTS

We usually arrange for the delivery of the majority of our products to customers. We rely on third party logistics service providers to deliver our products.

We generally use trucks and ships to deliver aluminum alloy ingots. Once we enter into a sales agreement with a customer, a delivery order will be sent to our logistics subdivision under the sales and marketing department, which will in turn send a bidding invitation to third party logistics service providers. The successful bidder will arrange the delivery in accordance with our customer's requirement after entering into a service agreement and making a deposit with us. We will settle the transportation fee upon the presentation of our customer's receipt and the service provider's invoice. The logistics service providers for aluminum alloy ingots are generally responsible for losses of and damages to our products incurred during delivery pursuant to the relevant service agreements.

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Molten aluminum alloy has to be stored in a specially designed container to keep its temperature at 750°C to 900°C during delivery. All of our molten aluminum alloy customers are located in close proximity to our manufacturing facilities. We have engaged Binzhou Yinhe, an Independent Third Party, as our exclusive service provider for the delivery of molten aluminum alloy. We chose Binzhou Yinhe as our exclusive molten aluminum alloy delivery service provider through a competitive bidding among four logistics service providers in June 2007, as Binzhou Yinhe demonstrated their expertise in transportation of hazardous goods and strong financial condition and offered us the lowest price among the bidders. The current service agreement between Binzhou Yinhe and us will expire in September 2012. Pursuant to this agreement, Binzhou Yinhe is our exclusive molten aluminum alloy delivery service provider during the term of this agreement. Upon the expiration of this agreement, we plan to select our molten aluminum alloy delivery service provider through bidding process, and we may choose to engage more than one molten aluminum delivery service provider in the future if we consider it favorable to our Group. According to the service agreement between Binzhou Yinhe and us, Binzhou Yinhe has a priority over other molten aluminum alloy delivery service providers to enter into a new agreement with us. The delivery service fee is calculated by taking into account the transportation volume and average gasoline price on a monthly basis and settled by the end of each month. Binzhou Yinhe is certified to transport dangerous goods. The vehicles that it uses to deliver molten aluminum alloy are properly equipped and have all necessary licenses for such purpose and are equipped with caution lights. In addition, all such vehicles are equipped with GPS satellite computerized navigation systems, which allow us to monitor the delivery process and ensure safe transportation. The transport route is designated by the local traffic authority and, when possible, a special lane for molten aluminum alloy transport will also be assigned. We are able to deliver molten aluminum alloy directly from our smelters to our customers' manufacturing lines within a short period of time. Binzhou Yinhe is responsible for losses of and damages to our products attributable to Binzhou Yinhe's fault. Our Directors have confirmed that, during the Track Record Period, we did not experience any interruption of the supply of molten aluminum alloy delivery services from Binzhou Yinhe. We do not have any alternative arrangement for molten aluminum alloy delivery services. However, because there are alternative molten delivery service providers in Zouping County, our Directors believe we will be able to obtain alternative services in case Binzhou Yinhe is unable to provide sufficient and satisfactory molten aluminum alloy delivery services to us. However, we cannot assure you that we will always be able to find alternative sources of molten aluminum alloy delivery services on satisfactory terms in a timely manner, or at all. If we fail to do so, it would have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors – Risks Relating to Our Business – We rely on one single transport company to deliver molten aluminum alloy products to our customers and it may be difficult to find alternative carriers."

Our customers pick up aluminum busbars from us.

INTELLECTUAL PROPERTY RIGHTS

We place emphasis on protecting the intellectual property rights of our products, processes and technologies. As of the Latest Practicable Date, we were not aware of any of our employees disclosing our intellectual properties which are material to our business to third parties in breach of their contractual obligations.

As of the Latest Practicable Date, we owned the domain names www.hongqiaochina.com, www.hongqiao-china.com, www.hongqiaogroup.cn and www.hongqiaoxc.com. As of the Latest Practicable Date, we also had seven registered trademarks in Hong Kong and three trademark applications in the PRC for our aluminum products.

Our Directors have confirmed that we had not experienced any infringement of our intellectual property rights which had a material effect on our business as of the Latest Practicable Date. See "Risk Factors".

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COMPETITION

The aluminum industry is highly competitive in China. As of September 30, 2010, according to Antaike, there were 85 primary aluminum manufacturers in China, and the average designed annual aluminum production capacity of these manufacturers was 251,000 tons of primary aluminum products, including pure aluminum products and aluminum alloy products. As of September 30, 2010, only ten primary aluminum manufacturers in China had a designed annual primary aluminum production capacity of 500,000 tons or more, which accounted for approximately 61.0% of the total primary aluminum production capacity in China.

Molten aluminum alloy is our most popular product in terms of sales volume and revenue. As molten aluminum alloy is a hazardous good for transportation and needs to be stored in a specially designed container to keep high temperature during delivery, purchasers of molten aluminum alloy are always located in close proximity to the manufacturing facilities of molten aluminum alloy. As the major aluminum supplier in Zouping County, we accounted for approximately 86.7% of the annual production capacity of primary aluminum in Zouping County as of September 30, 2010, according to Antaike. As such, our Directors believe that we have a dominant market position in Zouping County.

We sell aluminum alloy ingots and aluminum busbars to customers located in Northeastern, Southern, Eastern and Northern China. We generally compete with our competitors on quality of products, pricing, location of manufacturing site, time-to-market and available capacity.

Our Directors believe that our competitive advantages and strengths, including our established market position, our ability to take advantage of the fast growing PRC aluminum market, our competitive cost structure and secure supply of electricity, our strategic location, our product focus on molten aluminum alloy and our experienced management team, allow us to compete effectively in the aluminum industry.

ENVIRONMENTAL PROTECTION

We are subject to PRC national environmental laws and regulations and periodic inspection by local environmental protection authorities, including but not limited to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Environmental Impact Evaluation Law of the PRC (中華人民共和國環境影響評價法), the Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例), the Law of the PRC on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of the Water Pollution (中華人民共和國水污染防治法) and the Administrative Regulation on the Levy and Use of Discharge Fees (排污費徵收使用管理條例). We are required to conduct assessments on the effect on the environment for the construction of our aluminum production lines and power station, formulate environment pollution prevention and remedial plans and obtain approval from the environmental protection authorities for such assessments before the commencement of construction of our aluminum production lines and power station. After the completion of construction, we need to pass inspections for our environmental protection facilities by the environmental protection authorities. We are required to apply for registration with relevant environmental protection authorities for discharge of pollutants and pollutant discharge permits, and pay for over-discharge. Based on the confirmations issued by relevant authorities, we have complied with relevant national and local environmental protection laws and regulations.

Aluminum production

According to relevant PRC environmental laws and regulations, the construction, renovation and expansion of all aluminum-processing projects must comply with relevant aspects of the environmental impact assessment system. An environmental impact assessment of each project must be performed and an assessment report must be submitted to the relevant environmental protection authority for approval.

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Also, production activities may not begin until the project has been inspected and approved by the relevant environmental protection authority. Any failure to comply with such laws and regulations may result in the relevant environmental protection authority issuing orders to suspend construction and implement measures to rectify the non-compliance. In circumstances where such rectification measures are not completed and/or production activities have begun prior to inspection and approval, the responsible entity may be fined between RMB50,000 and RMB200,000.

Aluminum production is subject to various environmental laws and regulations. For example, national regulations promulgated by the PRC government set forth discharge standards for emissions into the air and water. National environmental protection enforcement authorities also promulgate discharge fees for various waste substances. The discharge fee usually increases for each incremental increase of the amount of discharge up to a specified level set by the state or local regulatory authorities. For any discharge exceeding the specified level, the relevant PRC government may order our facilities to rectify behavior causing environmental damage, and subject to PRC government approval, the local government has the authority to order any of our facilities to close for failure to comply with existing regulations.

During the manufacturing process of aluminum products, our factory discharges sewage, emits air pollutants and produces noise. We have installed dedusting equipment for our manufacturing facilities to minimize industrial waste. In addition, we recycle and reuse aluminum scraps generated during our production process. We have improved our energy-efficiency by applying new production techniques and new technologies and optimizing our production process. In addition, we have installed sound insulation equipment to reduce the impact of the noise produced in the daily operations of our manufacturing bases.

Thermal power station

During the power generation process, a power plant discharges sewage, emits air pollutants, such as sulphur dioxide, and produces noise. We have installed dedusting and desulphurization equipment in our power station to reduce the emission of air pollutants. We have also installed water recycling and treatment equipment to minimize the impact of sewage on the environment. Our power station has obtained the required approvals from and has satisfied the emission requirements provided by local governments. In addition, we have installed sound insulation equipment to reduce the impact of the noise produced in the daily operations of our power station.

Our environmental protection measures

We have established a dedicated environmental protection department. The environmental protection department is responsible for overseeing the environmental protection of our Group as a whole, such as formulating environmental-related guidelines and policies for our Group in order to ensure compliance with the applicable environmental laws, regulations and standards, monitoring the latest development in the environmental-related laws, regulations and standards in the PRC in order to ensure the internal environmental protection guidelines and policies of our Group is up-to-date, monitoring the compliance with the applicable environmental laws, regulations and standards by regularly inspecting the production facilities and the pollutant discharge facilities of our Group, handling the application for environmental protection approvals and the inspection and any other necessary filings for the construction projects of our Group, liaising with the governmental environment protection authorities in the PRC as and when required and formulating contingency plan for any environmental-related emergency and handling such emergency.

As of September 30, 2010, our environmental protection department which was established in August 2007 comprised nine environmental protection personnel, all of whom obtained vocational training college education and majored in environmental science, environmental engineering or environmental inspection and treatment. Mr. Ji Dengpan, who has been the head of our environmental protection department since its establishment, has about eight years of experience in environmental protection, and our environmental

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protection personnel have an average of more than four years of experience in environmental protection. In addition to these environmental protection personnel, as of September 30, 2010, we also had more than 700 production personnel who were responsible for the operations, monitoring and maintenance of our environmental protection facilities.

Shandong Hongqiao obtained the ISO14001 for our environmental management system in April 2010, which set out a wide range of environment protection requirements, such as the knowledge of environmental protection among our employees, the pollution control and monitoring standards, the pollutant disposal guidelines and the pollution prevention and remedial system. We paid discharge fees of approximately RMB4.0 million, RMB4.8 million, RMB4.8 million and RMB1.9 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

The Environmental Inspection Station of Zouping County has also conducted environmental inspections with respect to the production activities of Aluminum & Power and Shandong Hongqiao. The Environmental Inspection Station of Zouping County is not a governmental authority. However, according to the relevant PRC laws and regulations, as advised by our PRC legal advisors, Zong Heng Law Firm, environmental inspection stations in the PRC are public institutions established and funded by the relevant environmental protection authorities, and are under their direct supervision, and are vested with the authority to monitor and inspect environmental damages and pollution. As advised by our PRC legal advisors, Zong Heng Law Firm, the Environmental Inspection Station of Zouping County is the competent entity with due authority to conduct such environment inspections. Our Directors have confirmed that such inspections were not commissioned by us.

The table below sets forth the current level of pollutants discharged by us and the level prescribed by the national standards according to the inspection reports prepared by the Environmental Inspection Station of Zouping County.

	National Standards	Aluminum & Power			Shandong Hongqiao
		Aluminum alloy ¹	Electrolytic aluminum ²	Thermal power station ³	Aluminum alloy ⁴
Waste gas emission					
Dust	200mg/m ³	50mg/m ³	52mg/m ³	39mg/m ³	56mg/m ³
Sulfur dioxide	850mg/m ³	76mg/m ³	83mg/m ³	192mg/m ³	80mg/m ³
Fluoride	6mg/m ³	5.4mg/m ³	4.57mg/m ³	n/a	5.74mg/m ³
Nitrogen oxide	650mg/m ³	n/a	n/a	404mg/m ³	n/a
Sewage emission					
PH	6 ~ 9	7.98	7.26	7.14	7.26
Chemical oxygen demand	150mg/l	42mg/l	48mg/l	40mg/l	48mg/l

1. The inspection was conducted on October 10, 2010.
2. The inspection was conducted on October 11, 2010.
3. The inspection was conducted on October 10, 2010.
4. The inspection was conducted on October 11, 2010.

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Our PRC legal advisors, Zong Heng Law Firm, have advised us that both the aluminum production lines we are currently operating and our power station have been approved by or filed with the relevant environmental protection authorities and have passed inspections for our environmental protection facilities upon completion of construction, except our Binzhou Manufacturing Base Phase I, which we have not completed its construction. Our Group has obtained the confirmation letters dated October 18, 2010 issued by the Zouping County Environmental Protection Bureau for Aluminum & Power and Shandong Hongqiao and a confirmation letter dated October 15, 2010 for Zhengtong issued by the Economic Development Zone Branch Office of Binzhou City Environmental Protection Bureau, which confirmed that:

- (i) the construction and operations of all of our projects are in compliance with the environmental protection laws and regulations;
- (ii) our pollutant discharge meets the relevant discharge standards provided by the national and local authorities; and
- (iii) we have complied with relevant environmental protection laws and regulations in the PRC and have never been punished for breach of any of the relevant environmental protection laws, regulations or rules.

Our PRC legal advisors, Zong Heng Law Firm, have further advised us that the Zouping County Environmental Protection Bureau and the Economic Development Zone Branch Office of Binzhou City Environmental Protection Bureau are the competent authorities to issue such confirmations.

Alumina production's environmental impacts

The production process of alumina creates solid waste called "red mud". The production of one ton of alumina typically produces approximately 0.8 to 1.5 tons of red mud, and the ratio is dependent on the type of bauxite used in the refining process. Red mud is the solid fraction left over from the initial dissolution of bauxite in caustic soda, which gives red mud its high alkalinity content. Red mud is a mixture of solid and oxide-bearing impurities, including oxidized iron, silica, unleached residual aluminum and titanium oxide. Long-term over-exposure to these chemical ingredients contained in the red mud may have harmful impact on human health. For example, over-exposure to alkali may cause acid-alkaline imbalance in the human body, and over-exposure to fluoride compounds may result in osteoporosis or bone deformation. Red mud is usually stored in holding ponds or yards. Based on existing technology in China, it is technically difficult to decompose red mud. If the red mud is not processed properly, it will also pollute soil and water. Our Directors confirm that no red mud or other similar pollutant is discharged during our Group's aluminum production process.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that, although there are no national or local environmental protection standards governing the level of red mud created in the production process of alumina, there are certain regulations which govern the manner of storage and disposal of red mud and the measures to prevent pollution caused by red mud, including Regulation on the Prevention of Mine Tailings Pollution (《防治尾礦污染環境管理規定》) promulgated by the State Administration of Environmental Protection, which mainly provides that (i) enterprises which create mine tailings should formulate prevention plans for mine tailings pollution, and adopt effective measures to prevent pollution caused by mine tailings; (ii) enterprises should build mine tailings processing or storage facilities, and mine tailings should be discharged into such mine tailings facilities; and (iii) effective measures on leakage prevention should be adopted for the mine tailings facilities which store dangerous mine tailings.

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Environmental Protection of Chuangye Group's Alumina Production Business

Chuangye Group was our exclusive alumina supplier for 2007, 2008 and 2009. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, which expired on December 31, 2009. Pursuant to this agreement, Chuangye Group operated its alumina business in the name of Aluminum & Power. Aluminum & Power was responsible for the sales of alumina, procurement of raw materials, incurrence of operating expenses, collection of proceeds from settlement of trade receivables and payment of the liabilities in connection with the procurement of raw materials and operating expenses in Aluminum & Power's name for and on behalf of Chuangye Group and executed all of the legal documents pertinent to the alumina production business. Chuangye Group held the titles and ownership of the assets pertinent to the alumina production business. At the time of the Agency Agreement, Aluminum & Power was a subsidiary of Chuangye Group. See “– Discontinued Operations – Alumina Agency Business.”

Chuangye Group obtained environmental impact assessment approvals for construction of the alumina production lines on November 8, 2006 and September 17, 2008, and completion inspection approvals on February 2, 2008 and September 1, 2009 from the Ministry of Environmental Protection of the PRC. According to the environmental monitoring reports issued by the Environmental Inspection Station of Zouping County dated January 22, 2008, January 19, 2009 and January 11, 2010, the Environmental Inspection Station of Zouping County conducted inspections on January 12, 2007, July 17, 2007, January 5, 2008, July 14, 2008, January 6, 2009 and July 7, 2009, and the pollution of the air, soil and water in vicinity of the alumina production facilities of Chuangye Group was within the level prescribed by national standards.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the Agency Agreement, we would not be liable for the pollution caused by red mud in the event that there is any, according to the confirmation letter issued by the Zouping County Environmental Protection Bureau dated November 15, 2010 and the confirmation letter issued by the Binzhou City Environmental Protection Bureau dated December 2, 2010:

- (i) our Group and Chuangye Group had not been involved in any pollution caused by the alumina production of Chuangye Group in violation of the environmental protection laws and regulations during the term of the Agency Agreement; and
- (ii) there has been no penalty imposed in relation to environmental laws and regulations, or dispute between Chuangye Group and our Group and the Zouping County Environmental Protection Bureau.

Furthermore, our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the confirmation letter issued by the Environmental Protection Bureau of Shandong Province dated December 27, 2010 regarding the compliance with environmental laws and regulations of the operation of the alumina production facilities in question, in particular the storage and treatment of red mud:

- (i) Chuangye Group had taken effective measures in compliance with the relevant environmental laws and regulations to prevent any pollution during the period when it operated the alumina production facilities (including the treatment and use of red mud);
- (ii) the alumina production of Chuangye Group had never caused any environmental issue, Chuangye Group had never been punished for breach of any of the relevant environmental protection laws, regulations or rules by any environmental protection authority in respect of their alumina production and there is no circumstance which would lead to the imposition of any such punishment; and
- (iii) the construction and operation of the alumina production facilities of Chuangye Group have completed the requisite procedures and obtained the relevant approvals in accordance with the PRC environmental laws and regulations and are in compliance with the PRC environmental laws and regulations both historically and as at the date of the confirmation.

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In addition, our PRC legal advisors, Zong Heng Law Firm, have further advised that the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau and the Environmental Protection Bureau of Shandong Province are the competent governmental authorities to issue such confirmation letters. However, there is no assurance that the confirmations of the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province will not be challenged by higher authorities supervising and guiding the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province under PRC laws and regulations.

Environmental Protection of Gaoxin Aluminum & Power's Alumina Production Business from 2010 onwards

Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power, an Independent Third Party in December 2009. Gaoxin Aluminum & Power became our exclusive alumina supplier from 2010. Our Directors have confirmed that we are not involved in the operations of the alumina business of Gaoxin Aluminum & Power. As confirmed by Gaoxin Aluminum & Power, we are the major customer of its alumina products. See “– Procurement – Raw materials – Procurement of alumina.”

As advised by our PRC legal advisors, Zong Heng Law Firm, based on the approvals issued by the Ministry of Environmental Protection in respect of the alumina production projects on November 8, 2006, February 2, 2008, September 17, 2008 and September 1, 2009, the confirmation letter issued by the Zouping County Environmental Protection Bureau dated November 29, 2010 and the confirmation letter issued by the Binzhou City Environmental Protection Bureau on December 2, 2010:

- (i) effective measures have been taken to prevent any pollution during the alumina production process, including the treatment of red mud; and
- (ii) the storage and disposal of red mud created from the alumina business of Gaoxin Aluminum & Power are in compliance with the relevant environmental laws and regulations.

Furthermore, our PRC legal advisors, Zong Heng Law Firm, have advised us that, according to the confirmation letter issued by the Environmental Protection Bureau of Shandong Province dated December 27, 2010 regarding the compliance with environmental laws and regulations of the operation of the alumina production facilities in question, in particular the storage and treatment of red mud:

- (i) Gaoxin Aluminum & Power has taken effective measures in compliance with the relevant environmental laws and regulations to prevent any pollution during the period when it operates the alumina production facilities (including the treatment and use of red mud);
- (ii) the alumina production activities of Gaoxin Aluminum & Power has never caused any environmental issue, Gaoxin Aluminum & Power has never been punished for breach of any of the relevant environmental protection laws, regulations or rules by any environmental protection authority in respect of their alumina production and there is no circumstance which would lead to the imposition of any such punishment; and
- (iii) the construction and operation of the alumina production facilities transferred from Chuangye Group to Gaoxin Aluminum & Power have completed the requisite procedures and obtained the relevant approvals in accordance with the PRC environmental laws and regulations and are in compliance with the PRC environmental laws and regulations both historically and as at the date of the confirmation.

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In addition, our PRC legal advisors, Zong Heng Law Firm, have further advised that the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau and the Environmental Protection Bureau of Shandong Province are the competent governmental authorities to issue such confirmation letters. However, there is no assurance that the confirmation of the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province will not be challenged by higher authorities supervising and guiding the Zouping County Environmental Protection Bureau, the Binzhou City Environmental Protection Bureau or the Environmental Protection Bureau of Shandong Province under PRC laws and regulations.

In addition, any failure by Gaoxin Aluminum & Power, our sole alumina supplier, to control the use of, or to adequately restrict the discharge of, hazardous substances or maintain workplace safety, especially the storage and discharge of red mud, could subject Gaoxin Aluminum & Power to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of Gaoxin Aluminum & Power's alumina production activities. As a result, our business, financial condition and results of operations will be materially and substantially affected. See "Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected." In addition, if there is any environmental protection issue with Gaoxin Aluminum & Power, as its major customer of alumina products, our reputation might be damaged.

Environmental Protection Measures

Pursuant to the completion inspection approvals dated February 2, 2008 and September 1, 2009 issued by the Ministry of Environmental Protection, Chuangye Group had implemented proper measures to prevent pollution arising out of the alumina production process. For example, the alumina storage facilities had proper seepage and flood control measures and a number of underground-water observation wells. The red mud waste was dehydrated and filtered into solid waste before it was discharged to red mud storage facilities, which largely reduced the risk of environmental pollution. In addition, there were a 400-meter prevention zone around the alumina production facilities and a 500-meter prevention zone around the red mud storage facilities, and the original residents within these prevention zones were relocated before the commencement of the alumina production. Furthermore, such approvals confirmed that proper environmental protection policies and measures and emergency plans had been implemented. Such environmental protection facilities and systems were transferred together with the alumina production facilities to Gaoxin Aluminum & Power by Chuangye Group.

The Environmental Inspection Station of Zouping County has also conducted environmental inspections on the production activities of Gaoxin Aluminum & Power. As advised by our PRC legal advisors, Zong Heng Law Firm, the Environmental Inspection Station of Zouping County is the competent entity with due authority to conduct such environment inspections.

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The table below sets forth the level of pollutants discharged by Gaoxin Aluminum & Power in its alumina production activities and the level prescribed by the national standards according to the inspection reports prepared by the Environmental Inspection Station of Zouping County:

	National Standards	Gaoxin Aluminum & Power
	(mg/m³ or mg/l)	(mg/m³ or mg/l)
Waste gas emission		
Dust	200	44
Sulfur dioxide	850	30
Sewage emission		
PH	6-9	6.8
Chemical oxygen demand	150	46
Red mud underground-water observation wells		
Water temperature	–	11.5
PH	6.5-8.5	7.28
Total hardness	450	380
Ammonia nitrogen	0.2	0.144
Permanganate index	3.0	1.45
Total dissolved solids	1,000	475
Sulphate	250	92
Chloride	250	45
Fluoride	1.0	0.57
Nitrate nitrogen	20	5.55
Nitrite nitrogen	0.02	–

Note: The inspection was conducted on October 26, 2010.

WORK SAFETY

We are subject to PRC safety laws and regulations, which set out the legal standards for health and safety measures with which our operations must comply. As our business expands and our production operations become more complex, we regularly review and ensure that our occupational health and safety procedures and measures are in compliance with all relevant legal standards. We are required to conduct assessments on the safety of our aluminum production lines and power station, formulate production safety and accident prevention plans and obtain approval from the work safety authorities for such assessments before the commencement of construction of our aluminum production lines and power station. After the completion of construction, we need to pass inspections for our work safety facilities by the work safety authorities. We are required to provide our employees with work safety education and training, as well as work safety equipment that meet the national and local standards. We are required to educate and supervise our employees to strictly follow our work safety rules and procedures. Based on the confirmations issued by relevant authorities, we have complied with relevant national and local work safety laws and regulations.

Since the establishment of our Group, we have adopted and implemented a series of occupational health and safety procedures and measures for our business operations. We have formulated guidelines on occupational safety, such as production safety measures and procedures for handling certain emergency, to all employees. We hold monthly work safety meeting mechanism at various levels of our management to exchange information of recent experience and measures among our different operational divisions, review the issues discovered in the implementation of our work safety policies and improve our overall

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work safety and accident prevention. We also have a dedicated production safety management division, which is responsible for managing and implementing occupational health and safety practices at our facilities. All personnel of our production safety management division have taken training courses for work safety held by the government, and possess necessary qualification for work safety issued by the local government of Binzhou City. In addition, we have installed safety protection and inspection equipment at our work site, and we monitor all equipment and facilities on a real time basis. Furthermore, we hold regular work safety training sessions for our special skilled workers and general staff to increase safety awareness, and conduct routine occupational health examinations for our employees.

We have devoted a substantial amount of resources to work safety and accident prevention. As of the Latest Practicable Date, we had not been involved in any accident causing death or serious bodily injury in the course of our business operations.

Our Group has obtained confirmation letters dated October 18, 2010 from the Zouping County Work Safety Supervision Bureau for Shandong Hongqiao and Aluminum & Power and the Binzhou Work Safety Bureau for Zhengtong, which confirmed that Shandong Hongqiao, Aluminum & Power and Zhengtong have complied with the relevant PRC laws and regulations in respect of work safety and have obtained the requisite approvals and that the facilities of the three subsidiaries have been designed and constructed by contractors with appropriate qualifications. The authorities also confirmed that, as of October 18, 2010:

- (i) these subsidiaries have complied with the PRC national and local safety laws and regulations;
- (ii) there has not been any work safety accidents in these subsidiaries since their respective dates of establishment;
- (iii) the subsidiaries have not been penalized by relevant authorities for work safety matters;
- (iv) the subsidiaries did not have any work-safety related disputes with the relevant authorities; and
- (v) the subsidiaries have not violated any PRC work safety related laws and regulations which may lead to the imposition of any penalty by the relevant authorities.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that the Zouping County Work Safety Supervision Bureau and the Binzhou Work Safety Bureau are the competent authorities to issue such confirmations.

Aluminum Technology's Accident

Aluminum Technology, a subsidiary of Chuangye Group, completed the construction of its aluminum molding and casting facilities in July 2007 and started trial operations in August 2007. On August 19, 2007, an explosion occurred in this factory, which resulted in 20 fatalities and 55 injuries. The relevant aluminum production facilities were destroyed in this accident. Pursuant to a preliminary circular issued by the State Work Safety Bureau on August 26, 2007, one of the major indirect reasons for this accident was due to the flaws in the design of production facilities prepared by Aluminum & Power, which did not possess the required qualification of design. However, pursuant to a confirmation letter dated April 9, 2010 issued by the Binzhou Work Safety Bureau, which carried out a follow-on investigation and made the final conclusion with respect to this accident:

- (i) the Binzhou Work Safety Bureau confirmed that the design papers and information of the production facilities of Aluminum & Power were amended by the technical workers of Aluminum Technology;
- (ii) the Binzhou Work Safety Bureau confirmed that Aluminum & Power was not involved in the design of the aluminum production facilities of Aluminum Technology and was not responsible for this accident;
- (iii) the Binzhou Work Safety Bureau fined Aluminum Technology in the amount of RMB2.0 million and banned Aluminum Technology from carrying out any alumina or aluminum businesses;

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- (iv) although the Binzhou Work Safety Bureau confirmed that Mr. Zhang was not directly responsible for this accident, the Binzhou Work Safety Bureau still fined him with a total amount of RMB550,000 as he was the executive director and legal representative of Aluminum Technology at that time; and
- (v) the victims and their family members have been compensated with a total amount of approximately RMB9.0 million and all of the relevant claims have been settled.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that the Binzhou Work Safety Bureau was duly authorized by the Shandong provincial government to conduct investigation on the cause and details of this accident and is the competent authority to issue such confirmation, and based on such confirmation letter, Aluminum & Power is not responsible for this accident and all aluminum production assets currently held by our Group are in compliance with all relevant work safety laws and regulations in the PRC. In addition, Zong Heng Law Firm advised that the relevant governmental authorities (including the Binzhou Work Safety Bureau) completed the follow-on investigation and made the conclusion and decision relating to the accident in December 2007 and the results of the investigation were endorsed in February 2008 by the People's Government of Shandong Province, and the findings and penalties as described in the confirmation letter are final.

At the time of the accident, while Mr. Zhang was the legal representative of Aluminum Technology, Mr. Zhang confirmed that he was not involved in the daily operation of Aluminum Technology and that he was not involved in making the decision of modifying the design papers and information of the production facilities of Aluminum & Power for use by Aluminum Technology. Our Company confirms that Mr. Zhang was a director of Aluminum Technology at the time of the accident and apart from Mr. Zhang, no other Director was the director or senior management of Aluminum Technology during the Track Record Period and as of the Latest Practicable Date. See "Risk Factors – Risks Relating to Our Industry – Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs."

PROPERTIES

As of the Latest Practicable Date, we operated our businesses through six properties in the PRC for our production facilities, offices and other places of operations. These properties comprised: (i) the land use rights to seven parcels of land with a total site area of approximately 3,764,308 sq.m.; (ii) 253 buildings with a total gross floor area of approximately 924,515 sq.m.; and (iii) 12 buildings under construction with a total planned gross floor area of approximately 125,063 sq.m. We have obtained all the required land use rights and building ownership certificates for all of our land and completed buildings, respectively. We leased parcels of land from Chuangye Group from July 2005 and acquired the land use rights of such land from Chuangye Group pursuant to land use right transfer agreements entered into between Chuangye Group and us in January 2010, on which all of our aluminum products facilities are located. The consideration of such land use rights was approximately RMB50.1 million, which was determined with reference to the acquisition cost of such land use rights by Chuangye Group and was fully paid by us to Chuangye Group in January 2010. See "History and Reorganization – Business Milestones." We believe that our current properties will meet our future needs and are consistent with our business plans. Please refer to the Property Valuation Report set forth in Appendix IV to this prospectus for further details.

INSURANCE

We maintain insurance policies with insurance companies in China which cover losses to our equipment, facilities, buildings and their improvements, vehicles and inventories arising from fire, lightning, explosion and aircraft accidents. Insurance coverage for our fixed assets in China amounted to approximately RMB6,850 million as of the Latest Practicable Date. Currently, we do not maintain business interruption insurance or insurance relating to the delivery of our products. Our sales contracts generally provide that, once the products leave our manufacturing site, the ownership of such products are

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immediately transferred to our customers. As a result, we are not responsible for the risk of losses occurring during transportation. In addition, for losses of and damages to our molten aluminum alloy products during delivery, Binzhou Yinhe, our delivery service provider, is responsible if such losses and damages are attributable to its fault. The logistics service providers for aluminum alloy ingots and aluminum busbars are generally responsible for losses of and damages to our products incurred during delivery pursuant to the relevant service agreements. We do not maintain any product liability insurance. We have not made any material claims under our insurance policies and have not experienced any material business interruptions since we commenced our operations.

EMPLOYEES

As of September 30, 2010, we employed 11,234 employees. The table below sets forth the breakdown of our employees by functions as of September 30, 2010.

Function	Number of employees
Aluminum production	8,494
Power station	1,461
Supply	160
Sales, marketing and delivery	170
Quality control	390
General management	559
Total	<u>11,234</u>

We believe that our management policies, working environment and employee development opportunities and benefits have contributed to good employee relations and employee retention. We provide additional benefits to our employees, such as free accommodation, allowances for medical care, food and transportation. We have not experienced any labor strikes or major labor disputes since our inception.

We provide training programs for our employees to equip them with the requisite skills and knowledge. This is achieved through various internal training programs. Each new employee is provided with necessary training programs and supervision from senior employees during the first four months on the job to facilitate the transfer of necessary skills.

The remuneration package of our employees includes salary and various types of allowances. In addition, we have established a performance-based award system under which employees may be awarded additional bonuses. Under the relevant labor and social welfare laws and regulations, we are required to pay each of our non-rural residence employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing reserve fund. As required by PRC regulations, we participate in the social insurance schemes operated by the relevant local government authorities. The local governmental social insurance authorities in Zouping County and Binzhou City, which have competent jurisdiction over Aluminum & Power and Shandong Hongqiao, respectively, have confirmed in their letters dated October 18, 2010 respectively that, with respect to Aluminum & Power and Shandong Hongqiao:

- (i) we have complied with all national and local laws and regulations in relation to social insurance payments for our employees,
- (ii) we have not been punished for violating such laws or regulations, and
- (iii) there is no outstanding dispute between the social insurance authority and us, or any outstanding social insurance payment that we owe to the local social insurance authority.

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Our Directors have confirmed that we have complied with the applicable employment laws and regulations in China in all material respects and were not in breach of such laws and regulations during the Track Record Period.

According to relevant PRC laws and regulations, we are required to purchase work injury insurance for our non-rural residence employees. The initial work injury insurance rates are usually determined by local social security authority based on the risk level of the relevant industry, and Zouping County Labor and Social Security Bureau has confirmed in writing that the applicable initial work injury insurance rate of Aluminum & Power is 1%. The initial fee rate may be adjusted on a regular basis, ranging from one to three years. Such adjustment allows the fee rate to be increased to 120% or 150% of, or be reduced to 80% or 50% of the original fee rate. Because Aluminum & Power had a good track record of work safety and prevention of occupational diseases, the Zouping County Labor and Social Security Bureau reduced our insurance fee rate for work injury to 0.8% in 2008. The underpaid amount due to the aforesaid reduction was RMB90,460 and RMB105,880 in the year 2008 and 2009, respectively. As confirmed by the Zouping County Labor and Social Security Bureau, such amount is not required to be paid.

In addition, with a view to reduce the financial burden of local businesses in Zouping County during the global financial crisis, the Zouping County Labor and Social Security Bureau agreed to postpone certain of our social security payments for 2008 and 2009 with a total amount of approximately RMB16.9 million. We have been required by the Zouping County Labor and Social Security Bureau to pay such amount before December 31, 2010. We fully repaid such amount by internal resources before December 31, 2010.

Our Directors have confirmed that such discounted and postponed payments of social insurance premium will not affect our Group's profit requirement under the Listing Rules.

Furthermore, our PRC legal advisors, Zong Heng Law Firm, have advised us that we are not required to contribute social insurance premium for our workers with rural residence according to the social insurance laws and regulations in the PRC, including the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform (中共中央、國務院關於深化醫藥衛生體制改革的意見), the Report of the Agricultural and Rural Affairs Committee of the National People's Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas (全國人民代表大會農業與農村委員會關於農村社會保障體系建設情況跟蹤檢查報告) and the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis (國務院關於開展新型農村社會養老保險試點的指導意見). As of December 31, 2007, 2008 and 2009 and September 30, 2010, we had approximately 3,811, 2,916, 3,012 and 6,821 employees with rural residence, respectively, accounting for approximately 48.7%, 40.8%, 40.8% and 60.7% of our total employees as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively.

Our PRC legal advisors, Zong Heng Law Firm, have further advised us that, as Zouping County Labor and Social Security Bureau is the government authority in charge of social insurance in Zouping County, it is competent to set the requirements and make confirmation in respect of the social insurance issues of Aluminum & Power and Shandong Hongqiao according to its understanding of relevant laws and policies and local practical situation, and based on the confirmation letters dated October 18, 2010 issued by the Zouping County Labor and Social Security Bureau:

- (i) Shandong Hongqiao and Aluminum & Power are not required to contribute social insurance premium in respect of the workers with rural residence;
- (ii) Shandong Hongqiao and Aluminum & Power have fully paid social insurance payments and are in compliance with all applicable social insurance regulations;
- (iii) Shandong Hongqiao and Aluminum & Power will not be required to make further contributions; and
- (iv) no penalty will be imposed on Shandong Hongqiao and Aluminum & Power.

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In addition, although Binzhou Manufacturing Base Phase I commenced its trial production in late September 2010, Zhengtong has not hired any employees yet and all personnel working for such trial production are employees of Aluminum & Power as a temporary arrangement. Our PRC legal advisors, Zong Heng Law Firm, have advised us that, as the Labor and Social Security Office of the Binzhou Economic Development Zone is the government authority in charge of social insurance in Binzhou Economic Zone, where Zhengtong is located, it is competent to set the requirements and make confirmation in respect of the social insurance issues of Zhengtong according to its understanding of relevant laws and policies and local practical situation, and based on the confirmation letters dated as of October 18, 2010 and October 25, 2010 issued by the Labor and Social Security Office of the Binzhou Economic Development Zone, Zhengtong has been in compliance with the labor and social security regulations and policies.

However, there is no assurance that the confirmations of the Zouping County Labor and Social Security Bureau and the Labor and Social Security Office of the Binzhou Economic Development Zone will not be challenged by higher authorities as higher government offices supervising and guiding the Zouping County labor and Social Security Bureau and the Labor and Social Security Office of the Binzhou Economic Development Zone under PRC laws and regulations. If the aforesaid adverse circumstances occur, we may be required to pay the worker compensation insurance at a higher rate.

DISCONTINUED OPERATIONS

During the Track Record Period, we had discontinued operations. The profit from our discontinued operations was approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, and the net loss was approximately RMB9.4 million for 2009. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its own alumina operations in the name of Aluminum & Power for the period from May 26, 2006 to December 31, 2009. In addition, we operated dyeing business under Shandong Hongqiao and a caustic soda manufacturing business under Marine Chemical. To focus on our aluminum production business, we disposed of the dyeing business and the caustic soda manufacturing business in early 2010.

Alumina Agency Business

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, which expired on December 31, 2009. At the time of the Agency Agreement, Aluminum & Power was a subsidiary of Chuangye Group. We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009. Chuangye Group is a company in which Mr. Zhang directly and indirectly held approximately 33.72% equity interest as of the Latest Practicable Date. The key features of this agency arrangement include:

- (i) Chuangye Group operated its alumina business in the name of Aluminum & Power, and Aluminum & Power was responsible for the sales of alumina, procurement of raw materials, incurrance of operating expenses, collection of proceeds from settlement of trade receivables and payment of the liabilities in connection with the procurement of raw materials and operating expenses in Aluminum & Power's name for and on behalf of Chuangye Group and executed all of the legal documents pertinent to the alumina production business;
- (ii) Chuangye Group held the titles and ownership of the assets pertinent to the alumina production business (such assets were injected into Aluminum & Power as a partial contribution to its registered capital by Chuangye Group and were eventually transferred back to Chuangye Group on June 5, 2006. See "History and Reorganization – Shareholding History of Our PRC Subsidiaries – (3) Aluminum & Power.") and was responsible for the production of alumina;
- (iii) the liabilities, risks and results relating to the alumina production business were all attributable to Chuangye Group and the accumulated profits from the alumina production business were paid by Aluminum & Power to Chuangye Group;

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- (iv) all taxation pertinent to the alumina production business was paid by Aluminum & Power and was charged back to Chuangye Group;
- (v) Chuangye Group paid Aluminum & Power a management fee for the sales of alumina to third parties at a rate of RMB400, RMB200, and RMB100 per ton for the three years ended December 31, 2007, 2008 and 2009, respectively, which was determined based on the assumption that the increasing sales volume of alumina during the term of the Agency Agreement would offset the decrease in the management fee rate;
- (vi) Aluminum & Power was entitled to purchase alumina from Chuangye Group at production cost during the term of the Agency Agreement; and
- (vii) all of the employees engaged in the alumina production business were employed by Chuangye Group and their salaries were paid by Aluminum & Power on behalf of Chuangye Group, which were charged back to Chuangye Group.

The Agency Agreement was valued at RMB443.0 million by Jones Lang LaSalle Sallmanns Limited, an independent valuer, as intangible assets at the time when our Group obtained control of Aluminum & Power, which was fully amortized from June 2006 to December 2009.

The following table sets forth the management fee rate and the total management fee we received from Chuangye Group pursuant to the Agency Agreement for the periods indicated:

	Year ended December 31,		
	2007	2008	2009
Management fee rate (RMB per ton)	400	200	100
Total management fee (RMB in thousand)	900,314	362,889	154,982

In addition, as part of the agency arrangement, Aluminum & Power entered into a steam supply agreement with Chuangye Group on December 20, 2006, pursuant to which Aluminum & Power supplied steam to Chuangye Group for its alumina production free of charge. For 2007, 2008 and 2009, we provided approximately 121,647 tons, 603,817 tons and 2,104,252 tons of steam to Chuangye Group, respectively.

The alumina production facilities owned by Chuangye Group at the time are located in Zouping Economic Development District and are in close proximity to our Zouping Manufacturing Base. These alumina production facilities are physically separated from our aluminum production facilities and other facilities.

Before entering into the alumina agency arrangement, the then director and senior management of Aluminum & Power, namely Mr. Zhang and Mr. Yang Congsen, have considered:

- (i) the terms of the Agency Agreement, including the collection of management fees and the assumption of all liabilities, risks and losses in connection with the alumina production business by Chuangye Group;
- (ii) Chuangye Group's ability and willingness to perform its obligations under the Agency Agreement based on its scale of operations and financial position; and
- (iii) the internal control policies and compliance mechanisms of the alumina production business, including production safety management documents.

The then director and senior management of Aluminum & Power were of the view that:

- (i) the terms of the Agency Agreement were reasonable and in the interest of our Group;
- (ii) this alumina agency arrangement would not only secure Aluminum & Power a stable supply of alumina, but was also financially favorable to Aluminum & Power through the collection of management fees, thereby improving its profitability and financial flexibility to better carry out its development plan; and

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(iii) Chuangye Group would be able and willing to perform its obligations under the Agency Agreement.

As confirmed by Chuangye Group, it entered into this transaction which was favorable to Aluminum & Power as Aluminum & Power was its subsidiary at that time and would be its related party after Aluminum & Power was acquired by Shandong Hongqiao on June 9, 2006. In addition, Chuangye Group also derived the following benefits for its alumina production business by entering into the Agency Agreement with Aluminum & Power, including:

- (i) the free supply of steam by Aluminum & Power to Chuangye Group for its alumina production until December 2009;
- (ii) the assumption of working capital by Aluminum & Power under the alumina agency arrangement;
- (iii) the procurement of a large amount of alumina by Aluminum & Power from Chuangye Group which allowed Chuangye Group to achieve a higher and more stable utilization rate of its alumina manufacturing facilities, which in turn helped Chuangye Group reduce its unit cost of sales of alumina and minimize the potential chemical deterioration of the alumina production equipment of Chuangye Group as a result of under-utilization; and
- (iv) the operation of the alumina business in the name of Aluminum & Power allowed Chuangye Group to focus on and enhance its corporate profile as one of the largest textile companies in the PRC at that time.

We generated from this agency arrangement profits of approximately RMB458.8 million and RMB145.6 million for 2007 and 2008, respectively, and incurred a loss of approximately RMB1.9 million for 2009. The loss of approximately RMB1.9 million for 2009 was due to the fact that the amortization of intangible assets of approximately RMB111.9 million was not tax deductible. As a result, the income tax for the alumina agency business was greater than its profit before taxation for 2009.

In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power, an Independent Third Party. Our Directors and the Sole Sponsor are of the view that Gaoxin Aluminum & Power and its associates are independent third parties to Chuangye Group. Gaoxin Aluminum & Power is principally engaged in power generation and alumina production. Our Directors have confirmed that there is no overlap of the management team and employees between our Group and Gaoxin Aluminum & Power. See “Risk Factors – Risks Relating to Our Business – We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operation would be disrupted and our business, financial condition and results of operations would be materially and adversely affected.” As confirmed by Chuangye Group, it sold its alumina production facilities to focus on its textile business, and Gaoxin Aluminum & Power had financial capability to purchase the alumina production facilities at that time. As advised by Gaoxin Aluminum & Power, it acquired the aluminum production facilities with a view to leveraging its own electricity generating capacity. Since Chuangye Group’s disposal of the alumina production facilities to Gaoxin Aluminum & Power, neither Chuangye Group nor our Group has acquired any alumina production facilities or has been involved in alumina production or red mud production.

Pursuant to the alumina supply agreement between Gaoxin Aluminum & Power and our Group, Gaoxin Aluminum & Power agreed to provide our Group with alumina at discount, provided that our Group picks up the alumina in bulk by themselves, that our purchase volume is more than one million tons every year and that our Group paid a deposit of approximately RMB400 million. On this basis, the alumina procurement cost of our Group is lower than the price of alumina supplied to third parties by Gaoxin Aluminum & Power. See “– Procurement – Raw materials – Procurement of alumina.” As such, the Directors believe that our Group will be able to maintain its competitive strength of having a competitive cost structure even after the change in pricing mechanism in 2010.

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Our Directors have confirmed that for 2007, 2008 and 2009, when the alumina production business was run by Chuangye Group, the overlaps between the management teams of Chuangye Group and us were Mr. Zhang, Mr. Zhang Bo and Mr. Yang Congsen, who were directors of both Aluminum & Power and Chuangye Group. However, none of them was directly involved in the alumina business of Chuangye Group.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that Chuangye Group and Aluminum & Power are legally incorporated and validly existing, and the Agency Agreement is not in violation of any PRC laws or regulations and is legal and valid.

Other than the alumina agency business, we have never engaged in any alumina production. As the production of alumina adopts different raw materials, production process and facilities, our aluminum production facilities cannot be used to produce alumina.

Dyeing Business

Historically, Shandong Hongqiao was engaged in the dyeing business. On January 4, 2010, Shandong Hongqiao entered into an agreement with Chuangye Group, pursuant to which Chuangye Group transferred its assets of aluminum production to Shandong Hongqiao at a price of RMB1,189.7 million. Pursuant to this agreement, Shandong Hongqiao paid the purchase price in a combination of cash amounted to RMB1,154.3 million and the assets of its dyeing business, which were valued at RMB35.4 million. The payment was fully settled in March 2010 by Shandong Hongqiao with cash generated from our operations and new bank loans we obtained at that time. See “History and Reorganization.” Our PRC legal advisors, Zong Heng Law Firm, have advised us that Shandong Hongqiao is legally incorporated and validly existing, has obtained the necessary approvals and permits for carrying out the dyeing business, and, based on the confirmation issued by relevant authorities, Shandong Hongqiao has complied with relevant laws and regulations with respect to the dyeing business. Our PRC legal advisors, Zong Heng Law Firm, have further advised us that this agreement is legal and valid, and accordingly we are no longer responsible for any expenses or losses arising from the dyeing business upon the completion of transfer of the dyeing business to Chuangye Group.

The loss of the dyeing business was approximately RMB33.4 million, RMB0.3 million and RMB0.9 million for 2007, 2008 and 2009 respectively. We recorded a gain of approximately RMB24.9 million for the nine months ended September 30, 2010 due to the gain in the disposal of the dyeing business.

Caustic Soda Manufacturing Business

Marine Chemical was established on March 2, 2006 in the PRC as a limited liability company, and was disposed by us to Shandong Huibin Dyeing Co., Ltd. in January 2010. See “History and Reorganization.” Our PRC legal advisors, Zong Heng Law Firm, have advised us that Marine Chemical is legally incorporated and validly existing, has obtained the necessary approvals and permits for carrying out its business, and, based on the confirmation issued by relevant authorities, Marine Chemical has complied with relevant laws and regulations with respect to its business. Our PRC legal advisors, Zong Heng Law Firm, have further advised us that the share transfer framework agreement dated December 28, 2009 among Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group is legal and valid, and pursuant to this agreement, we are no longer responsible for any expenses or losses arising from the caustic soda manufacturing business from January 1, 2010.

The construction of Marine Chemical was commenced in March 2006 and it has been at the trial production stage since May 2009. It was principally engaged in production and sales of caustic soda. During the Track Record Period, Marine Chemical provided caustic soda to Chuangye Group for its alumina production as well as other customers. Our loss from Marine Chemical amounted to approximately RMB6.6 million for 2009. We recorded a gain of approximately RMB6.6 million for the nine months ended September 30, 2010 due to the gain in the disposal of the caustic soda manufacturing business.

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INTERNAL CONTROL

To enhance the internal control of our Group, our Company has engaged an independent internal control consultant to review the internal controls of our PRC subsidiaries, which included Shandong Hongqiao, Aluminum & Power and Zhengtong.

The review of the internal control consultant has identified a number of areas requiring improvement, which primarily related to the implementation of additional policies and procedures including but not limited to policy for nomination and selection of Board members, compensation committee and audit committee charter and procedures, and policies and procedures for disclosures, revision of certain existing policies and procedures including but not limited to treasury management, and further enforcement of the procedures that are currently stated in the policies. Based on the review of the report prepared by the internal control consultant, the Sponsor confirms that the main areas which required improvement included corporate governance structure, disclosures control, and treasury management. The internal control consultant has provided recommendations for all findings. The findings identified by the internal control consultant in terms of policies/procedures and executions of control have been remedied.

In addition, in order to assist our Group in complying with the relevant requirements under the Listing Rules, our Company undertakes that: (i) our Hong Kong legal advisor, compliance advisor or other relevant professional parties will provide regular trainings on corporate governance and Listing Rule requirement including continuing connected transactions to our Directors and senior management for at least 10 hours each year after the Listing; (ii) our Company will engage an independent internal control adviser to monitor and review our Group's internal control system for the first year after the Listing; and (iii) our Company will establish a designated group comprising employees from the securities department, general management office and financial department to monitor our on-going compliance with the Listing Rules, including but not limited to the requirements governing the disclosure, connected transactions, financial reporting of our Company.

We will include details of the review conducted by the independent internal control consultant, findings and measures taken by our Group in our interim report and annual report after listing.

LEGAL PROCEEDINGS

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, we were involved in the following material litigations.

1. On February 6, 2007, Aluminum & Power and Wuhan Boiler Company Limited, or Wuhan Boiler, entered into a boiler supply agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with four sets of boilers for RMB516 million. As of the Latest Practicable Date, Wuhan Boiler had delivered only one set of boiler. On June 28, 2010, Aluminum & Power initiated legal proceedings against Wuhan Boiler at Binzhou Intermediate People's Court, seeking for the termination of the relevant boiler supply agreement on the basis of Wuhan Boiler's breach of the relevant boiler supply agreement, the refund of the deposits of approximately RMB49.9 million and the relevant litigation expenses. Binzhou Intermediate People's Court has not heard this case.
2. On June 26, 2007, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with four sets of boilers for RMB516 million. As of the Latest Practicable Date, Wuhan Boiler had not delivered any boiler. On June 28, 2010, Aluminum & Power initiated legal proceedings against Wuhan Boiler at Binzhou Intermediate People's Court, seeking for the termination of the relevant boiler supply agreement on the basis of Wuhan Boiler's breach of the relevant boiler supply agreement, the refund of the deposits of approximately RMB20 million and the relevant litigation expenses. Binzhou Intermediate People's Court has not heard this case.

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3. On July 11, 2003, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers for RMB424 million. This boiler supply agreement was amended for several times with respect to its total price, delivery schedule and payment term in 2005 and 2006. As both parties had disputes regarding the interpretation of the terms with respect to the total price and quality deposits, on September 15, 2010, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People's Court, seeking for the payment of purchase price and refund of quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, an overdue fine of approximately RMB57.5 million and the relevant litigation expenses. Shandong Higher People's Court held the first hearing on November 18, 2010 and has not reached a final judgment. Our Controlling Shareholders have undertaken to indemnify any losses incurred by Aluminum & Power and our Group if the final judgment is against Aluminum & Power.
4. On February 16, 2006, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, or the February 2006 Boiler Supply Agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers for RMB104 million. Wuhan Boiler delivered the eight sets of boilers to Aluminum & Power under this agreement. On May 24, 2006, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, or the May 2006 Boiler Supply Agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers for RMB104 million. Wuhan Boiler delivered six sets of boilers to Aluminum & Power under this agreement. These boilers were ordered for the alumina production by us on behalf of Chuangye Group for the use of alumina production. See “– Discontinued Operations – Aluminum Agency Business.” Gaoxin Aluminum & Power acquired the relevant alumina production facilities from Chuangye Group in December 2009. On March 23, 2010, Wuhan Boiler, Gaoxin Aluminum & Power and Aluminum & Power entered into an assignment agreement, pursuant to which Wuhan Boiler agreed that Aluminum & Power's rights and obligations under the February 2006 Boiler Supply Agreement and the May 2006 Boiler Supply Agreement were novated to Gaoxin Aluminum & Power. In addition, pursuant to this novated agreement, if Gaoxin Aluminum & Power fails to perform its obligations under these supply agreements, Wuhan Boiler should be entitled to require Aluminum & Power to perform such obligations.

On November 8, 2010, Wuhan Boiler initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People's Court, seeking for an overdue fine of approximately RMB51.5 million in relation to the February 2006 Boiler Supply Agreement and the relevant litigation expenses, which Wuhan Boiler alleges Gaoxin Aluminum & Power and Aluminum & Power should be jointly and severally responsible for. As both parties had disputes regarding the interpretation of the terms with respect to the total price and quality deposits in relation to the May 2006 Boiler Supply Agreement, on November 17, 2010, Wuhan Boiler initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People's Court, seeking for the termination of the May 2006 Boiler Supply Agreement, the payment of purchase price RMB32.7 million, damages of approximately RMB13.0 million, an overdue fine of approximately RMB96.8 million and the relevant litigation expenses, which Wuhan Boiler alleges Gaoxin Aluminum & Power and Aluminum & Power should be jointly and severally responsible for. Shandong Higher People's Court held the first hearings of both cases on January 17, 2011 and has not reached the final judgments. Because Aluminum & Power entered into these boiler supply agreements on behalf of Chuangye Group, Chuangye Group has undertaken to indemnify any losses incurred by Aluminum & Power and our Group if the final judgments are not in favor of Aluminum & Power.

As of the Latest Practicable Date, other than the litigations disclosed above, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us.

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CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering, the Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised). Save and except for their respective interests in our Company and its subsidiaries, none of the Controlling Shareholders nor any of their respective associates had interests in any other companies as of the Latest Practicable Date that may, directly or indirectly, compete with our Group's business.

We are currently engaged in the production and sales of aluminum products, consisting of molten aluminum alloy, aluminum alloy ingots and aluminum busbars. See "Business – Our Products". Mr. Zhang, one of our Controlling Shareholders, currently holds interests in certain companies, or the Non-Group Companies, which operate certain businesses outside of our Group, or the Non-Group Business.

As of the Latest Practicable Date, Mr. Zhang's equity interests in the Non-Group Companies is summarized below:

Company	Percentage of interest held by Mr. Zhang	Main Business Scope
Aluminum Technology (<i>Note 1</i>)	33.72%	production and sales of carbon anode blocks
Chuangye Group	33.72%	production and sales of cotton, dyed yarn, printed and dyed cloth, knitwear, clothing
Daixi Shanzhuang Co., Ltd. (<i>Note 1</i>)	33.72%	food and accommodation
Huibin Dyeing	100%	production and sales of colour yarn
Marine Chemical	100%	production and sales of caustic soda products
Profit Long Investment	100%	trade and investment
Shandong Shipping Investment Co., Ltd.	75%	investment and investment consultation
Shandong Weilian Printing and Dyeing Co., Ltd. (<i>Note 1</i>)	24.62%	production and sales of all kinds of printed and dyed cloth
Shandong Weiqiao Chuangjie Clothing Co., Ltd. (<i>Note 1</i>)	25.29%	production and sales of clothing
Shandong Weiqiao Clothing Co., Ltd. (<i>Note 1</i>)	22.65%	production and sales of clothing
Shandong Weiqiao Extra-width Printing and Dyeing Co., Ltd. (<i>Note 1</i>)	33.38%	production and sales of extra-width printing cloth and printing fabric
Shandong Weiqiao Hengfu Knitting Printing and Dyeing Co., Ltd. (<i>Note 1</i>)	20.23%	production and sales of knitted fabric, dyeing and printing
Shandong Weiqiao Hongyuan Home Textile Co., Ltd. (<i>Note 1</i>)	20.23%	production and sales of home textile products
Shandong Weiqiao Jiajia Home Textile Co., Ltd. (<i>Note 1</i>)	33.72%	production and sales of home textile products
Weihai Western-Suburbs Thermal Power Co., Ltd. (<i>Note 1</i>)	33.72%	no production or business operation
Weiqiao (USA) Co., Ltd. (<i>Note 1</i>)	18.55%	home textile trading
Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (<i>Note 1</i>)	33.72%	import and export business

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Company	Percentage of interest held by Mr. Zhang	Main Business Scope
Weiqiao Textile Company Limited (“Weiqiao Textile”) (Note 1)	20.86%	production and sales of cotton yarn, grey fabric and denim
Zouping Weiqiao Recyclable Resources Utilization Co., Ltd (Note 1)	30.02%	development and recycling of red mud

Note 1: As at the Latest Practicable Date, all of these companies are subsidiaries of Chuangye Group.

(i) **Chuangye Group**

(a) *History of Chuangye Group*

Chuangye Group was originated and developed from Zouping County Weiqiao Cotton Spinning Factory, originally a small cotton processing factory established and wholly owned by Zouping County Supplying and Marketing Cooperation Union, or ZCSU, in the early 1950s to engage principally in cotton procurement and sale of lint cotton.

In April 1998, in order to conduct its cotton textile business as a limited liability company, Zouping County Weiqiao Cotton Spinning Factory was restructured and converted into Chuangye Group, which was owned as to 75% and 25% by ZCSU and the then 22 senior management officers of Zouping County Weiqiao Cotton Spinning Factory (or their successors or assigns), respectively.

ZCSU is a collectively owned enterprise established and validly existing under the PRC laws. As of the Latest Practicable Date, ZCSU has a total number of 84 members (as the owners). According to PRC laws, ZCSU, as a collectively owned enterprise, has no shareholder and all its assets are collectively and beneficially owned and ultimately controlled by its employees at the relevant time, including Mr. Zhang, through undividable shares.

As of the Latest Practicable Date, the registered capital of Chuangye Group was RMB1,600 million, which was owned as to 51% by Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司), or Zouping Investment, and 49% by 30 senior management officers of Chuangye Group. Mr. Zhang is one of the 30 senior management officers of Chuangye Group. The board of directors of Chuangye Group comprises nine members, including Mr. Zhang, Mr. Zhang Bo and Mr. Yang Congsen. During the Track Record Period, Mr. Zhang has been the chairman and a director of Chuangye Group, who, together with the other directors of Chuangye Group, were responsible for overseeing the overall business strategies and operations of Chuangye Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

(b) Changes of Mr. Zhang's shareholding interest in Chuangye Group

Period	Mr. Zhang's shareholding interest in Chuangye Group (approximately)
From April 1998 to December 2000.	4.80% <i>(note 1)</i>
From December 2000 to December 2001	4.24% <i>(note 2)</i>
From December 2001 to November 2007	4.53% <i>(note 3)</i>
From November 2007 to March 2010.	23.52% <i>(note 4)</i>
From March 2010 to the Latest Practicable Date	33.72% <i>(note 5)</i>

Note 1: The registered capital of Chuangye Group in April 1998 was RMB200 million.

Note 2: On December 20, 2000, the registered capital of Chuangye Group was increased from RMB200 million to RMB500 million.

Note 3: On December 23, 2001, the registered capital of Chuangye Group was increased from RMB500 million to RMB800 million.

Note 4: On November 28, 2007, ZCSU entered into an equity transfer agreement with each of the 30 senior management officers of Chuangye Group, including Mr. Zhang, pursuant to which ZCSU agreed to transfer approximately 18.99% of the equity interests in Chuangye Group to Mr. Zhang and approximately 20.01% in aggregate to the other 29 senior management officers of Chuangye Group at nominal considerations based on the interest distribution principle for collectively owned enterprises, all of whom were members (as owner on a collective basis) of ZCSU. After such transfer, ZCSU held 51% equity interests in Chuangye Group.

Note 5: On March 8, 2010, as part of further restructuring of ZCSU, Zouping Investment agreed to acquire 51% of the equity interests in Chuangye Group originally held by a third party trust company on behalf of ZCSU at a nominal consideration in accordance with the aforesaid interests distribution principle. The entire equity interests in Zouping Investment are beneficially owned by 81 members (as the owners) of ZCSU. Mr. Zhang holds 20% equity interests directly in Zouping Investment for himself and 5% equity interests for and on behalf of the other 29 senior management officers of Chuangye Group. After such restructuring, Mr. Zhang directly and indirectly held approximately 33.72% equity interests in Chuangye Group.

(c) Business Conducted by Chuangye Group

As at the Latest Practicable Date, Chuangye Group was principally engaged in the production and sales of cotton, dyed yarn, printed and dyed cloth, knitwear and clothing. It was one of the largest textile producers in China.

Our Group purchased certain aluminum products manufacturing facilities from Chuangye Group. See "History and Reorganization – Business Milestones."

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group would operate its alumina business in the name of Aluminum & Power, and Aluminum & Power would be responsible for the sales of alumina, procurement of raw materials, incurrence of operating expenses, collection of proceeds from settlement of trade receivables and payment for the liabilities in connection with the procurement of raw materials and operating expenses in its name for and on behalf of Chuangye Group and would execute all of the legal documents pertinent to the alumina production business of Chuangye Group. See "Business – Discontinued Operations – Alumina Agency Business."

The production process of alumina of Chuangye Group creates solid waste called "red mud", which, if not processed properly, will pollute soil and water. See "Business – Environmental Protection – Alumina production's environmental impacts."

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(ii) Weiqiao Textile

Weiqiao Textile is a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2698). As of the Latest Practicable Date, Chuangye Group held approximately 61.86% equity interests in Weiqiao Textile. Weiqiao Textile is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Its production facilities are located in Zouping County, Binzhou City and Weihai City of Shandong Province, the PRC. As of the Latest Practicable Date, Mr. Zhang is one of the non-executive directors of Weiqiao Textile. Mr. Qi Xingli was an executive director of Weiqiao Textile from October 2000 to June 2010. As part of Weiqiao Textile's remedial actions in relation to a breach of the reporting, announcement and independent shareholders' approval requirements under Listing Rules in respect of certain continuing connected transactions in 2006, Weiqiao Textile arranged for, among others, Mr. Zhang and Mr. Qi Xingli to attend 15 hours of training on the Listing Rules in April 2009.

(iii) Aluminum Technology

As of the Latest Practicable Date, Aluminum Technology is a wholly-owned subsidiary of Chuangye Group and only engages in the production and sale of carbon anode blocks. As confirmed by our Directors, Aluminum Technology has been engaged in the production of carbon anode blocks from July 2007. Aluminum Technology was a subsidiary of Chuangye Group during the Track Record Period. As confirmed by our Directors, it completed the construction of its aluminum molding and casting facilities in July 2007. Its relevant aluminum moulding and casting facilities were at trial production stage on and before August 19, 2007. On August 19, 2007, an explosion occurred in a factory operated by Aluminum Technology, which resulted in 20 fatalities and 55 people injuries. After such accident, it only engaged in the production of carbon anode blocks. Our Company confirms that apart from Mr. Zhang, no other Director was the director or senior management of Aluminum Technology during the Track Record Period and as of the Latest Practicable Date. See "Risk Factors – Risks Relating to Our Industry – Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs."

(iv) Non-Group Companies

As indicated above, the principal scope of businesses engaged by the Non-Group Companies mainly include the production of carbon anode blocks, marine chemical, home textile products, clothing, textile and dyeing. The carbon anode blocks produced by Aluminum Technology are used as one of the raw materials in the production process of our aluminum products. As of the Latest Practicable Date, we do not have any facilities that can be used for the production of carbon anode blocks. As such, each Non-Group Business is separate and different from our Group's aluminum products manufacture business as they utilise different production facilities, technologies and expertise and/or fall into different business categories. Therefore, as confirmed by our Controlling Shareholders, the Non-Group Business will not, directly or indirectly, compete with our Group's business. The Non-Group Business operated by the Non-Group Companies have not been included in our Group and our Controlling Shareholders confirmed that they have no current intention to inject any of the Non-Group Business into our Group.

Our Directors further confirmed that despite the fact that our Group has purchased certain aluminum production facilities from Chuangye Group as set out in the section headed "History and Reorganization – Business Milestones" of this prospectus, our Group has developed and executed its business plans and strategies independently. Therefore, there has not been any agreement between the shareholders, directors and senior management of our Group and Chuangye Group regarding their respective business focuses and delineation as of the Latest Practicable Date. In order to avoid any potential competition between our Group and Chuangye Group, the Controlling Shareholders and Chuangye Group have executed the Non-Competition Deed in favour of our Company, pursuant to which each of the Controlling Shareholders and Chuangye Group has undertaken that it will not engage in businesses that are, directly and indirectly, in competition with our Group. Our Directors also confirmed that, to the best of their knowledge, there

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has not been any disagreement or dispute between the shareholders, directors and senior management of our Group and Chuangye Group regarding their respective business focus and delineation as of the Latest Practicable Date.

NON-COMPETITION UNDERTAKING

The Controlling Shareholders and Chuangye Group have entered into the Non-Competition Deed in favor of our Company, pursuant to which the Controlling Shareholders and Chuangye Group have jointly, severally and irrevocably undertaken to our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time, or the Restricted Business. Such non-compete undertaking does not apply where the Controlling Shareholders and Chuangye Group and/or its or his affiliates has interests in the shares of a company whose shares are listed on a recognized stock exchange provided that:

- (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
- (ii) the total number of the shares held by the Controlling Shareholders and Chuangye Group and/or its or his associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and the Controlling Shareholders and Chuangye Group and/or its or his associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the he Controlling Shareholders and Chuangye Group and its or his associates in aggregate.

The Controlling Shareholders and Chuangye Group further undertake not to directly or indirectly solicit any of our Group's customers, suppliers or personnel of any member of our Group.

If any new business opportunity which competes or may compete with the Restricted Business, or the Business Opportunity, is made available to any of the Controlling Shareholders and/or Chuangye Group or his/its associates:

- (i) he or it shall direct to our Group any such Business Opportunity;
- (ii) he or it shall provide to our Company all information and documents possessed by him or it or his or its associates in respect of the Business Opportunity to enable our Company to evaluate the merit of the Business Opportunity and provide all reasonable assistance as requested by our Company to enable our Group to secure the Business Opportunity; and
- (iii) it shall not pursue the Business Opportunity unless and until our Company gives written notice to the Controlling Shareholders or Chuangye Group that our Group will not pursue such Business Opportunity.

The "restricted period" stated in the Non-Competition Deed refers to the period during which (i) the Shares of our Company remain listed on the Hong Kong Stock Exchange; and (ii) in relation to each Controlling Shareholders and Chuangye Group, it or he or its or his associate holds an equity interest in our Company and (iii) the relevant Controlling Shareholders and/or Chuangye Group and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

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DIRECTORS

Each of the Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their service agreements, executive Directors shall not at any time during his or her term of service with our Group be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested, directly or indirectly, in any other business, trade or occupation, which may be directly or indirectly competing with the business of our Group from time to time without the prior written consent of the Board.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by the Controlling Shareholders under the Non-Competition Deed;
- (ii) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-Competition Deed;
- (iii) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Non-Competition Deed in the annual reports of our Company; and
- (iv) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Non-Competition Deed in the annual report of our Company.

Independence from our Controlling Shareholders

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering:

Management Independence

Our Board consists of nine members, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Zhang, our Controlling Shareholder, acts as one of our executive Directors. Save as disclosed above, no other Controlling Shareholder is a director of our Company. Please refer to the section headed “Directors and Senior Management” in this prospectus for the roles and responsibilities of our Directors and senior management in our Group. Set out below is a table showing the roles of the overlapping Directors in the Non-Group Companies:

<u>Name</u>	<u>Company</u>	<u>Current Position</u>	<u>Responsibility</u>
Mr. Zhang	Chuangye Group	executive director	strategic management
	Hongqiao Holdings ⁽¹⁾	executive director	decision making
	Profit Long Investment ⁽¹⁾	executive director	decision making
	Wei qiao Textile	non-executive director	participation in decision making
	Wei qiao Pioneering (Hong Kong) Import & Export Company Limited	executive director	decision making
	Zouping Investment ⁽¹⁾	executive director	participation in decision making

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<u>Name</u>	<u>Company</u>	<u>Current Position</u>	<u>Responsibility</u>
Ms. Zheng	Profit Long Investment ⁽¹⁾	executive director	participation in decision making
Zhang Bo	Chuangye Group	executive director	participation in management and decision making
Yang Congsen	Chuangye Group	executive director	participation in management and decision making; responsible for management and operation of the thermal power assets
Zhang Jinglei	Weiqliao Textile Company Limited	executive director and company secretary	participation in management and operation decision making; discharging duties as a company secretary

Note (1): All these companies are investment holding companies.

Even though certain Directors have overlapping directorships and/or management roles at Chuangye Group and its affiliates (other than our Group), the Board and the senior management team of our Company will function independently from those of Chuangye Group. The respective roles of Mr. Zhang, Mr. Zhang Bo and Mr. Yang Congsen in Chuangye Group and its affiliates as set out above are, in each case, not expected to require their constant attention or a fixed amount of time from them. Mr. Zhang Jinglei is a non-executive Director. Further, Mr. Zhang, Ms. Zheng, Mr. Zhang Bo and Mr. Qi Xingli have confirmed that they will devote the majority of their business hours to attend to the affairs of our Group. Each of Mr. Zhang, Mr. Zhang Bo, Mr. Yang Congsen and Mr. Zhang Jinglei confirmed that their respective involvement in Chuangye Group and its affiliates will not materially affect the discharge of their respective duties to our Company.

Each of the executive Directors has also entered into a service contract with our Company for a term of three years. Mr. Zhang will serve as the Chairman and an executive Director of our Company. The three independent non-executive Directors have extensive experience in different areas or professions and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

In addition, in order to allow the remaining non-conflicting members of the Board to function properly with necessary expertise and experience, our Company will engage a third party professional adviser to advise the Board if necessary, depending on the nature and significance of any proposed transactions to be entered into between our Group and our Directors or their respective associates. Our Company will establish internal control mechanisms, including the policies on related party transactions to ensure that our Shareholders or Directors with a conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Listing.

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Operational Independence

We have established our own set of organizational structure comprising individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

During the Track Record Period, certain Non-Group Companies entered into related party transactions with our Group during our ordinary course of business. Such related party transactions made by us during the Track Record Period are disclosed in Note 36 to the Accountants' Report set out in Appendix I to this prospectus. We have purchased electricity from Chuangye Group in the amount of approximately RMB936.4 million, RMB1,681.0 million and RMB1,280.8 million for the years ended December 31, 2007, 2008 and 2009, respectively. We also purchased alumina from Chuangye Group in the amount of approximately RMB1,374.7 million, RMB2,996.0 million and RMB2,382.3 million for the years ended December 31, 2007, 2008 and 2009, respectively.

Certain of these related party transactions as described above were conducted at the prices at which our Group or the relevant related parties of our Group transacted with third parties. Set out below is a summary of such transactions:

- (a) sales of cryolite and carbon anode blocks by our Group to Aluminum Technology;
- (b) sales of accessories by our Group to Chuangye Group, Aluminum Technology and Binzhou Weiqiao Salt Industrial Development Co. Ltd.; and
- (c) purchases of materials, which mainly included accessories and parts used for the construction of thermal power station, by our Group from Chuangye Group and Aluminum Technology.

These transactions were related to the purchase of materials and parts required by both of our Group and the relevant related parties, in which parts or materials purchased from third parties by our Group (or the relevant related parties) were re-sold to the relevant related parties (or our Group, as the case may be) at the same price. Our Director confirms that these transactions could help to enhance the bargaining positions of our Group and the related parties in such purchases against the relevant third parties by purchasing in larger volumes than they individually could purchase and/or to enable our Group and the related parties to allocate resources in an economic and efficient manner.

In connection with the related party transactions under the Agency Agreement, the management fee paid by Chuangye Group as well as the purchases of alumina from Chuangye Group at production cost were part of the arrangements contemplated in the Agency Agreement between our Group and Chuangye Group relating to the operation of Chuangye Group's alumina business. See "Business – Discontinued Operations." The alumina sold to our Group by Chuangye Group for the three years ended December 31, 2009 accounted for approximately 20.4%, 39.8% and 47.3%, respectively, of the alumina sold by Chuangye Group during the respective periods. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. See "Business – Discontinued Operations – Alumina Agency Business." Mr. Zhang held approximately 23.52% equity interests in Chuangye Group at the time of such transaction.

Our Directors confirmed that, save and except for the continuing connected transactions set out under the paragraph headed "Non-exempt Continuing Connected Transactions" under the section headed "Connected Transactions" in this prospectus, the above related party transactions will be discontinued after the Listing. Our Directors consider that our operations do not rely on the continuous supply of carbon anode blocks from Aluminum Technology. Carbon anode blocks are common raw materials used in the production process of our aluminum products and there are many carbon anode block manufacturers in the market. During the Track Record Period, we have 18 carbon anode block suppliers. We expect to purchase all carbon anode blocks that will be produced by Aluminum Technology in the near future. Our purchase

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of carbon anode blocks from Aluminum Technology only accounted for approximately 4.4%, 16.4%, 21.2% and 20.9% of our total purchase of carbon anode blocks for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. Further, alternative suppliers of carbon anode blocks are readily available in the market at comparable prices and quality. Our Directors (including the independent non-executive Directors) consider that the transactions under the non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Group and have been based on arm's length negotiation and on normal commercial terms that are fair and reasonable and are in the interest of our Shareholders as a whole.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. In addition, our Group is financially independent from the Controlling Shareholders and their respective associates. The amounts due to our Controlling Shareholders and their respective associates as of the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB2,857.0 million, RMB3,471.9 million, RMB3,646.8 million (inclusive of liabilities associated with assets classified as held for sale) and nil, respectively. The guarantees provided by our Controlling Shareholders and their respective associates during each of the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB400 million, RMB1,395 million, RMB1,640 million and RMB3,761 million respectively. By November 2010, the guarantees provided by our Controlling Shareholders and their respective associates to our Group were fully released. Our Directors confirmed that before the Listing, guarantees provided by our Controlling Shareholders and their respective associates to our Group will be released in full (if any). Our Directors confirmed that as of May 31, 2010, we had repaid all amounts due to related parties by cash and bank bills we received from third parties. Our Directors further confirmed that all amounts due from related parties (other than those which are of trading nature) as stated in Note 36 to the Accountants' Report included in Appendix I to this prospectus will be fully repaid before the Listing and the amounts due from related parties which are of trading nature will be settled in accordance with the relevant credit terms, which are no more favorable than those granted to Independent Third Parties. We also believe that we are capable of obtaining financing from Independent Third Parties, if necessary, without reliance on the Controlling Shareholders. As of September 30, 2010, we had bank loans of approximately RMB500 million without any security or guarantees provided by our Controlling Shareholders and their associates. Our Directors believe that we have independent access to bank loans through pledge of our fixed assets and our equity interests in our PRC subsidiaries where necessary. In addition, we believe that our business relationships with the relevant banks developed during the Track Record Period will also enhance our ability to obtain loans from such banks without reliance on our Controlling Shareholders going forward, as such banks have become more familiar with our business, financial condition and results of operation during the Track Record Period. Therefore, there is no financial dependence on our Controlling Shareholders.

CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions with a party who is a connected person of our Company and the transactions will continue after the Listing, thereby constituting continuing connected transactions of our Company under the Listing Rules.

CONNECTED PERSON

Aluminum Technology is owned as to 33.72% by Mr. Zhang, who is our executive Director and a Controlling Shareholder indirectly holding 100% of the issued share capital of our Company before the Listing, and hence a connected person of our Company under Rule 14A.11(1) of the Listing Rules. Accordingly, Aluminum Technology is a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

As of the Latest Practicable Date, Aluminum Technology is principally engaged in the production of carbon anode blocks.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions (i) will constitute continuing connected transactions for our Group under Rule 14A.35 of the Listing Rules; (ii) are undertaken on an arm's-length basis and on normal commercial terms or terms no less favorable to our Group than terms available to and from Independent Third Parties (as the case may be); (iii) the applicable percentage ratios (other than the profit ratio) of the transactions on an annual basis are less than 5.0%; and (iv) and accordingly, will be subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement stipulated under the Listing Rules.

Purchase of carbon anode blocks from Aluminum Technology and supply of slag of carbon anode blocks to Aluminum Technology

(i) Terms of the Agreement

We have entered into a purchase and supply framework agreement, or the Agreement, dated November 22, 2010 for a term of three years with Aluminum Technology, pursuant to which Aluminum Technology has agreed to supply carbon anode blocks to our Group for our production of aluminum products and our Group has agreed to supply slag of carbon anode blocks to Aluminum Technology, on the terms no less favorable than those offered by any Independent Third Parties (in the case of purchase of carbon anode blocks from Aluminum Technology) or offered to any Independent Third Parties (in the case of supply of slag of carbon anode blocks to Aluminum Technology). Aluminum Technology is one of our principal suppliers of carbon anode blocks during the Track Record Period, and has a stable business relationship with us, in which they have provided a reliable and timely supply of carbon anode blocks to us and we have provided a reliable supply of slag of carbon anode blocks to them. Aluminum Technology will use the slag as part of its raw materials. The close geographical location of the respective operations of our Group and Aluminum Technology also offer us benefits such as timely delivery and costs effectiveness.

(ii) Pricing

The pricing of purchase of carbon anode blocks from Aluminum Technology by our Group and the supply of slag of carbon anode blocks by our Group to Aluminum Technology will be determined by the following principles:

- (a) the price as prescribed in accordance with the relevant regulations of the PRC government or the relevant authorities; or

CONNECTED TRANSACTIONS

- (b) if no such price is prescribed by the relevant regulations of the PRC government or the relevant authorities, the price of purchasing the carbon anode blocks and supplying of slag of carbon anode blocks will be based on the following, whichever is the lower:
 - (i) the market price in accordance with paragraph (c) below; or
 - (ii) the price as agreed between the parties under the Agreement, and in respect of the purchase of carbon anode blocks from Aluminum Technology, such agreed price shall not be more than the actual costs of producing the carbon anode blocks by Aluminum Technology, and in respect of the supply of slag of carbon anode blocks to Aluminum Technology, such agreed price shall not be less than the actual costs of supplying the slag of carbon anode blocks, in both cases plus a margin of an agreed rate (which shall not be more than the annual growth rate of the gross domestic product of Shandong Province at the end of each calendar year released by National Bureau of Statistics of China) of such costs; or
- (c) the market price, which shall be determined on normal commercial terms no less favorable than the terms offered by Independent Third Parties in Shandong Province.

Our Directors (including our independent non-executive Directors) confirm that the prices for purchase of carbon anode blocks from Aluminum Technology by our Group and supply of slag of carbon anode blocks by our Group to Aluminum Technology were determined on arm's length basis and in line with normal commercial terms. Our Directors (including our independent non-executive Directors) also believe that there is sufficient internal mechanism in place to ensure that the purchase and supply processes are conducted in a fair and open manner.

(iii) Historical Transaction Amounts

For each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, the aggregate amount paid by our Group to Aluminum Technology in relation to purchase of carbon anode blocks were approximately RMB23.8 million, RMB201.6 million, RMB162.8 million and RMB224.1 million, respectively, representing approximately 0.8%, 2.4%, 2.1% and 3.4%, respectively, of our Group's total cost of sales during such periods. Aluminum Technology has provided a stable supply of carbon anode blocks to us during the Track Record Period. The increase in our purchase of carbon anode blocks from Aluminum Technology was due to the increase in Aluminum Technology's carbon anode blocks production and our aluminum products production capacity during the Track Record Period. Our weighted average designed annual production capacity of aluminum products was approximately 301,513 tons, 601,085 tons, 738,973 tons and 916,000 tons as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively. For the year ended December 31, 2007, we also supplied carbon anode blocks to Aluminum Technology, which amounted to approximately RMB36.2 million in aggregate. Such carbon anode blocks were purchased by us from Independent Third Party suppliers and then sold to Aluminum Technology at cost in April and May 2007 as raw materials for its production of aluminum products. We started to purchase carbon anode blocks from and ceased to sell carbon anode blocks to Aluminum Technology in September 2007, when Aluminum Technology commenced its own production of carbon anode blocks. Aluminum Technology sold such carbon anode blocks to us at prevailing market prices. For each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our purchase of carbon anode blocks accounted for the entire sales of carbon anode blocks by Aluminum Technology. For each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, the sales of carbon anode blocks from Aluminum Technology to us accounted for 4.4%, 16.4%, 21.2% and 20.9% of our total purchase of carbon anode blocks, respectively. For each of the three years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, the average price for the purchase of carbon anode blocks by our Group from Aluminum Technology was RMB2,564 per ton, RMB3,419 per ton, RMB2,106 per ton and RMB2,753 per ton, respectively. The fluctuation of the purchase prices was primarily due to the fluctuation of the prevailing market price of carbon anode blocks in the PRC, on which our purchase prices

CONNECTED TRANSACTIONS

were based. Our Directors confirm that alternative suppliers of carbon anode blocks are readily available in the market at comparable prices and quality.

For each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, the aggregate amount recorded as other income received by our Group from Aluminum Technology in relation to supply of slag of carbon anode blocks were approximately nil, RMB6.9 million, RMB15.0 million and RMB13.6 million, respectively, representing approximately 0%, 0.1%, 0.2% and 0.1%, respectively, of our Group's total revenue for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. We supplied such slag of carbon anode blocks to Aluminum Technology at prevailing market prices. For the year ended December 31, 2007, there was no sales of slag of carbon anode blocks to Aluminum Technology by our Group. For each of the two years ended December 31, 2008 and 2009 and the nine months ended September 30, 2010, the average price for the sales of slag of carbon anode blocks to Aluminum Technology by our Group was approximately RMB1,650 per ton, RMB1,314 per ton and RMB1,594 per ton, respectively.

(iv) Maximum Annual Transaction Amounts

Our Directors expect that the annual aggregate amount to be paid by us to Aluminum Technology in relation to purchase of carbon anode blocks from Aluminum Technology under the Agreement for the two years ending December 31, 2011 and 2012 will be approximately RMB340 million and RMB375 million, respectively. The expected significant increase in the purchase of carbon anode blocks from Aluminum Technology is due to the facts that (i) Aluminum Technology's designed annual production capacity of carbon anode blocks has been increased to 150,000 tons in 2010 from 80,000 tons in 2009; and (ii) all carbon anode blocks produced by Aluminum Technology are expected to be purchased by us as its sole customer in the near future as Aluminum Technology is also located in Zouping County. The close geographic location means lower transportation cost when compared with our other carbon anode blocks suppliers and therefore enables us to reduce cost without having to compromise the quality of carbon anode blocks. Our Directors expect that the annual aggregate revenue to be received by us from Aluminum Technology in relation to supply of slag of carbon anode blocks by our Group to Aluminum Technology under the Agreement for the two years ending December 31, 2011 and 2012 will be approximately RMB24 million and RMB27 million, respectively. The proposed annual caps are determined with reference to the historical values, the prevailing market prices, the expected growth in production and sales of our aluminum products and the production capacity of Aluminum Technology.

The transaction value in respect of the purchase of carbon anode blocks by our Group from Aluminum Technology for each of the two years ending December 31, 2011 and 2012, respectively, are determined with reference to the transaction value (unaudited) for the year ended 2010, with an expected growth rate of 10% each year from 2010 to 2011 and from 2011 to 2012. Such growth rates are determined with reference to the expected growth rate of China's primary aluminum consumption from 2009 to 2015 (at a CAGR of 9.0% as estimated by Antaike). The transaction value (unaudited) for the year ended 2010 in relation to the purchase of carbon anode blocks by our Group from Aluminum Technology was RMB310 million.

The transaction value in respect of the supply of slag of carbon anode blocks by our Group to Aluminum & Power for each of the two years ending December 31, 2011 and 2012, respectively, are determined with reference to the transaction value (unaudited) for the year ended 2010, with an expected growth rate of 10% each year from 2010 to 2011 and from 2011 to 2012. Such growth rates are determined with reference to the expected growth rate of China's primary aluminum consumption from 2009 to 2015 (at a CAGR of 9.0% as estimated by Antaike). The transaction value (unaudited) for the year ended 2010 in relation to the supply of slag of carbon anode blocks by our Group to Aluminum Technology was RMB22 million.

CONNECTED TRANSACTIONS

The Agreement will expire on December 31, 2012 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice. Our Directors (including our independent non-executive Directors) are of the view that the transactions are carried out on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole.

APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Directors (including our independent non-executive Directors) consider that the transactions under the non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Group and are based on arm's length negotiation and on normal commercial terms that are fair and reasonable and are in the interest of our Shareholders as a whole. Our Directors (including our independent non-executive Directors) also confirm that each of the proposed annual caps set out herein are fair and reasonable and in the interest of our Shareholders as a whole.

Each of the applicable percentage ratios of the continuing connected transactions in relation to the purchase of carbon anode blocks and supply of slag of carbon anode blocks under the Agreement is, on an annual basis, expected to be less than 5.0%. As such, pursuant to Rule 14A.35 of the Listing Rules, such transactions are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, the annual review requirements set out in Rules 14A.37 to 14A.40 of the Listing Rules, but exempt from independent shareholders' approval requirement set out in Rules 14A.48 of the Listing Rules.

As the non-exempt continuing connected transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be unduly burdensome and impractical.

Accordingly, we have applied for, and have received from, the Hong Kong Stock Exchange a waiver from strict compliance with the announcement requirement set out in Rule 14A.47 of the Listing Rules for the non-exempt continuing connected transactions.

Our Company confirms that our Company will comply with the requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Listing Rules in relation to the above continuing connected transactions and that the maximum aggregate annual transaction values of the continuing connected transactions under the Agreement for the two years ending December 31, 2011 and 2012, respectively, are not expected to exceed the annual caps. Our Company will re-comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions for which waiver is sought have been entered into in the ordinary and usual course of our Group's business on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the annual caps set for the non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the Board of Directors of our Company:

Name	Age	Position
ZHANG Shiping	64	Chairman and executive Director
ZHENG Shuliang	64	Vice chairman and executive Director
ZHANG Bo	41	Chief executive officer and executive Director
QI Xingli	46	Chief financial officer and executive Director
YANG Congsen	41	Non-executive Director
ZHANG Jinglei	34	Non-executive Director
XING Jian	61	Independent non-executive Director
CHEN Yinghai	51	Independent non-executive Director
HAN Benwen	60	Independent non-executive Director

Executive Directors

Mr. Zhang Shiping (張士平), aged 64, was appointed the chairman and an executive Director of our Company on January 16, 2011 and is responsible for the overall strategic planning of our Group. He graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a diploma in cotton testing in December 1991. He is recognized as a qualified senior economist by the Shandong Economic Professional and Technical Title Senior Evaluating Committee (山東省經濟專業職務高級評審委員會) in 1989. Mr. Zhang Shiping has been the director of Shandong Hongqiao since July 1994. He held the positions of general manager of Chuangye Group (including its predecessor) from March 1996 to April 1998, the chairman of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) (including its predecessor) from May 1998 to October 2000, a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) from November 2001 to May 2010 and chairman of Aluminum Technology from December 2002 to September 2007¹. He is currently the chairman of Chuangye Group, a non-executive director of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698), chairman of Zouping Supply and Marketing Investment Co., Ltd (鄒平供銷投資有限公司), Party Secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社), chairman of Hongqiao Holdings, chairman of Profit Long Investment and chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited. Mr. Zhang Shiping is the founder of our Group and joined Aluminum & Power in December 2002 as a director. He has four years' experience in aluminum industry since the commencement of aluminum business in 2006. Mr. Zhang Shiping joined our Group in July 1994. He was a deputy to the 9th and 10th National People's Congress and was selected by the State Council as "National Model Worker in 1995". He is the husband of Ms. Zheng Shuliang, the father of Mr. Zhang Bo and the father-in-law of Mr. Yang Congsen.

(1) Mr. Zhang was fined by the Binzhou Work Safety Bureau with a total amount of RMB550,000 for an accident of Aluminum Technology occurred in August 2007 on the basis that he was the legal representative of Aluminum Technology at that time. See "Risk Factors – Risks Relating to Our Industry – Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs."

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zheng Shuliang (鄭淑良), aged 64, was appointed the vice chairman and an executive Director of our Company on January 16, 2011. She held the positions of the section chief, director of Metering Division of Raw Materials Purchase Department and deputy director of Raw Materials Supply Department of Chuangye Group (including its predecessor) from November 1996 to June 1999, director of Metering Department of Chuangye Group from June 1999 to June 2001. Ms. Zheng Shuliang joined our Group in July 2009 and has been a director and vice chairman of Shandong Hongqiao. She is currently a director of Profit Long Investment. She is the wife of Mr. Zhang Shiping, the mother of Mr. Zhang Bo and the mother-in-law of Mr. Yang Congsen.

Mr. Zhang Bo (張波), aged 41, was appointed an executive Director and chief executive officer of our Company on January 16, 2011. He graduated from Shandong Broadcast and Television University (山東廣播電視大學) majoring in financial accounting and has obtained a bachelor degree in economics in August 1996. He has also obtained a master degree in software engineering in Wuhan University (武漢大學) in June 2005. He is responsible for overseeing our Group's general operation, marketing and promotion for our Group. He has more than 12 years of management experience. He had also been the deputy general manager of Chuangye Group from April 1998 to February 1999, general manager, executive director, chairman of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) (including its predecessor) from March 1999 to September 2006, a director of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) from July 2001 to May 2010 and the chairman and general manager of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) from November 2001 to May 2010. He is currently a director of Chuangye Group. Mr. Zhang Bo joined our Group in 2006 and has been the general manager and the chairman of the board of directors of Aluminum & Power since November 2006. Mr. Zhang Bo has four years' experience in aluminum industry. He is familiar with the aluminum industry and has been equipped with the expertise in the aluminum industry. He is a deputy to the People's Congress of Shandong Province, and was selected by the State Council as "National Model Worker" in 2010. Mr. Zhang Shiping is his father and Ms. Zheng Shuliang is his mother.

Mr. Qi Xingli (齊興禮), aged 46, was appointed an executive Director and the chief financial officer of our Company on January 16, 2011. He graduated as a correspondence student² from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a university diploma in financial accounting in June 1998. He also obtained the certificate as an international certified senior accountant by the International Profession Certification Association in June 2010. He oversees our Group's finance and accounting functions and has over 20 years' experience in the cotton textile industry. He had also been deputy director and director of the financial division, deputy general manager and director of Chuangye Group (including its predecessor) from February 1994 to October 2000, general manager, executive director and the chief financial officer of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) from November 1999 to June 2010, a supervisor of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) from July 2001 to May 2010 and a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) from November 2001 to May 2010. Mr. Qi Xingli joined our Group in June 2010.

(2) Correspondence education means a distance learning course that aims to deliver education to students who are not physically "on site" in a traditional classroom or campus. The correspondence student may take courses on line or by correspondence with teachers. The correspondence education offered by institutions shall be accredited by the Ministry of Education of PRC.

Mr. Qi Xingli was admitted to Shandong Cadre Correspondence University as a correspondence student in July 1995 and after taking all the courses required by undergraduate teaching plan by correspondence, Mr. Qi Xingli received his diploma in June 1998.

DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Yang Congsen (楊叢森), aged 41, was appointed a non-executive Director of our Company on January 16, 2011. He graduated as a correspondence student from Ocean University of Qingdao (青島海洋大學) and obtained a junior college diploma in international trade in July 1998. Mr. Yang obtained the master degree of business administration from Dalian University of Technology (大連理工大學) in July 2006. He was responsible for the production and operation of the self-owned power plants of our Group prior to the Listing and has nearly ten years' management experiences. He held the positions of the network administrator of human resources division of Chuangye Group (including its predecessor) from October 1997 to December 1999, head of Thermal Power Plant of Shandong Weiqiao Chuangye Group Co., Ltd (山東魏橋創業集團有限公司熱電廠) from December 1999 to October 2003, deputy general manager of Chuangye Group from January 2005 to June 2006. He joined our Group in January 2007. He was also the deputy general manager of Aluminum & Power prior to the Listing. He is currently a director of Chuangye Group. He is the son-in-law of Mr. Zhang Shiping and Ms. Zheng Shuliang.

Mr. Zhang Jinglei (張敬雷), aged 34, was appointed a non-executive Director of our Company on January 16, 2011. He graduated from Xi'an Engineering College (西安工程學院) and obtained the junior college diploma in proximate analysis in July 1997. He joined Weiqiao Textile Company Limited (stock code: 2698) (魏橋紡織股份有限公司) (including its predecessor) in October 1997, and worked in the sales department of Weiqiao Textile Company Limited (including its predecessor) from September 1998 to September 2000. He worked at the securities office, production technology section and the securities department of Weiqiao Textile Company Limited from October 2000. Mr. Zhang Jinglei joined our Group in January 2011. He is currently an executive director and company secretary of Weiqiao Textile Company Limited (stock code: 2698) (魏橋紡織股份有限公司).

Independent Non-Executive Directors

Mr. Xing Jian (邢建), aged 61, was appointed an independent non-executive Director of our Company on January 16, 2011. He has completed an e-correspondence course³ of the Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) and obtained a university diploma in economics and management in December 1995. He held the positions of deputy secretary and secretary of Weiqiao Town of Zouping County from August 1982 to October 1985, deputy mayor of Zouping County from October 1985 to February 1987, deputy secretary and county mayor of Gaoqing County from February 1987 to January 1994, director and Party Secretary of Audit Bureau of Zibo City of Shandong Province from July 1994 to March 1999, deputy commissioner and Party Secretary of Special Commissioner Office of National Auditing Administration in Jinan from April 1999 to January 2001, deputy director of Head Office Service Bureau of National Auditing Administration from January 2001 to May 2002, director of Building Materials Auditing Bureau of National Auditing Administration from May 2002 to August 2008 and auditor of Social Insurance Auditing Bureau of National Auditing Administration from August 2008 to June 2009. Mr. Xing Jian confirmed that while he served as a government official, he did not have any working or other relationship with our Company, our Shareholders and our subsidiaries, or their respective shareholders, directors, senior management or their respective associate despite the fact that he worked in Weiqiao Town from 1982 to 1985 and in Zouping County from 1985 to 1987. Mr. Xing Jian further confirmed that after assuming positions outside Zouping County since February 1987, Mr. Xing Jian did not have any work relationship with our Group or our affiliates. Mr. Xing Jian confirmed that he satisfied the independence requirements under Rule 3.13 of the Listing Rules.

(3) Mr. Xing Jian was admitted to the Correspondence Institute of the Party School of the Central Committee of C.P.C. in August 1993 as a correspondence student, and he took the courses by correspondence. After passing all the courses required, Mr. Xing Jian obtained his diploma in December 1995.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yinghai (陳英海), aged 51, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from the School of Textile Science and Technology of Beijing Union University (北京聯合大學紡織工程學院) majoring in wool spinning and weaving and obtained the bachelor degree in engineering in July 1987. He held the position of the deputy section head of China Non-cotton Yarns & Fabrics Import & Export Co. (中紡化纖毛麻進出口公司) from December 1990 to April 1991, employer of Chinatex Industry Co., Ltd (中紡實業有限公司) from May 1991 to November 1994, general manager of Chinatex Singapore Trading Co. Ltd (中紡新加坡貿易有限公司) from December 1994 to November 1997, general manager of Chinatex Cotton Yarns and Fabrics Import & Export Corp. (中紡紗布進出口公司) from March 1998 to December 2000, director of representative office of Chinatex in Shanghai (中國紡織品進出口總公司) from March 2003 to May 2004. He is currently an executive director of RFH Equities Co. (融豐行投資有限公司) since October 2001.

Mr. Han Benwen (韓本文), aged 60, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from Shandong University (山東大學) and obtained a certificate in foreign economy in May 1994. He is a certified public accountant recognized by the Shandong branch of the Chinese Institute of Certified Public Accountants (山東省註冊會計師協會) and is a qualified middle level auditor. Mr. Han worked in Zouping County Audit Bureau (鄒平縣審計局) as a clerical officer from August 1985 to December 1999 and in Shandong Jianxin Certified Public Accountants Corporation (山東鑾鑫會計師事務所有限公司) (“Jianxin”, formerly known as Zouping Jianxin Certified Public Accountants Corporation) as an accountant from December 1999 to February 2007. Jianxin had performed certain audit, registered capital verification and asset appraisal work for our Group and was engaged by our Group to issue a capital verification report on Shandong Hongqiao and issued such report on March 11, 2010. Mr. Han Benwen confirmed that he has not been involved in the provision of any service to our Group, Chuangye Group or its subsidiaries during his employment with Jianxin. Mr. Han Benwen had ceased to work at Jianxin since March 2007 and confirmed that he had never been interested in Jianxin or the business dealings between Jianxin and our Group. He is currently working in Zouping Hongrui Accounting & Consulting Services Center (鄒平宏瑞會計諮詢服務中心) as an accountant since February 2007 and there has not been any business dealings between Zouping Hongrui Accounting & Consulting Services Centre and our Group, Chuangye Group or its subsidiaries. Mr. Han Benwen confirmed that he satisfies the independence requirements under Rule 3.13 of the Listing Rules.

SENIOR MANAGEMENT

Ms. Zhang Ruilian (張瑞蓮), aged 33, is the vice president of our Company and the manager of the accounting department of our Company. She graduated from Shandong Economic Management School of Light Industry (山東省輕工業經濟管理學校) and obtained the diploma in accounting in July 1996. She has over ten years' accounting experience. Ms. Zhang Ruilian joined our Group in June 2006. She held the positions of the manager of audit department of Chuangye Group from December 2005 to June 2006, manager of accounting department of Aluminum & Power from June 2006 to July 2009. She is currently the manager of accounting department of Aluminum & Power and manager of accounting department of Shandong Hongqiao.

Mr. Wang Donghua (王東華), aged 33, is the vice president of our Company and is in charge of our capital markets and merger and acquisition activities. He obtained his master's degree in finance from the European University in Geneva, Switzerland in July 2002. He worked as the assistant to the chairman and the investor relations director of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) and was in charge of its capital markets and merger and acquisition activities, including but not limited to communications with investment banks, securities firms and institutional investors, financing and merger and acquisition from 2003 to June 2010. Mr. Wang Donghua had not served any position in our Group prior to his appointment as the vice president of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Deng Wenqiang (鄧文強), aged 39, is the vice president of our Company. He graduated from Kunming University of Science and Technology (昆明理工大學) and obtained the bachelor's degree in non-ferrous metal metallurgy in July 1995 and is a qualified engineer. Mr. Deng Wenqiang joined our Group in January 2003. He is responsible for the production, research and development of aluminum products of our Group. Mr. Deng Wenqiang previously held the positions of workshop director, vice factory director and factory director of Aluminum & Power from January 2003 to June 2006. He is currently the deputy general manager of Aluminum & Power and deputy general manager of Shandong Hongqiao. In 2005, he was recognized as the Advanced Individual of Science and Technology Work by Shandong Province Metallurgical Industry Corporation. In 2000, he was awarded the first prize for his quality control achievements by Shandong Province Metallurgical Industry Corporation. He was elected as the representative of the 15th People's Congress of Zouping County and the 9th People's Congress of Binzhou Municipality.

JOINT COMPANY SECRETARIES

Ms. Zhang Yuexia (張月霞), aged 35, was appointed the secretary of our Company on January 16, 2011. She graduated from Binzhou Normal Specialised Postsecondary College (濱州師範專科學校), majoring in foreign trade English, and obtained a junior college degree in July 1998. She has over 10 years' accounting experience. She held the positions of the manager and section chief of accounting department of Chuangye Group from December 2001 to July 2009 and the deputy manager of the securities department of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) from March 2008 to January 2010. Ms. Zhang Yuexia had not served any position in our Group prior to January 16, 2011.

Ms. Ho Wing Yan (何詠欣), aged 29, was appointed the secretary of our Company on January 16, 2011. She graduated from Hong Kong Baptist University (香港浸會大學) and obtained a bachelor's degree in business administration (applied economics) in November 2004. She has also obtained a master degree of corporate governance from the Open University of Hong Kong (香港公開大學) in June 2009. She was admitted as an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries in November 2009. Ms. Ho Wing Yan held the position of company secretarial officer of Climax Management Company Limited (英發集團管理有限公司) from September 2007 to April 2009. Ms. Ho Wing Yan joined BMI Corporate Services Limited in July 2009 and is currently a manager of BMI Corporate Services Limited. Ms. Ho Wing Yan has extensive experiences in the company secretarial field for listed companies. Ms. Ho is currently the company secretary of Shanghai Jiada Withub Information Industrial Company Limited* 上海交大慧谷信息產業股份有限公司 (stock code: 8205), Neo Telemedia Limited 中國新電信集團有限公司 (stock code: 8167), Global Dairy Holdings Limited 環球乳業控股有限公司 (stock code: 1007) and HL Technology Group Limited 泓淋科技集團有限公司* (stock code: 1087). Ms. Ho Wing Yan had not served any position in our Company prior to January 16, 2011.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, none of our executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

* For identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

We have received from the Hong Kong Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Zhang Bo and Ms. Zhang Yuexia. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable time frame upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorized representatives has been duly authorized to communicate on behalf of our Company with the Hong Kong Stock Exchange.
- (b) In addition, we appoint a compliance advisor pursuant to Rule 3A.19 of the Listing Rules who will also act as our communication channel with the Hong Kong Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report of our financial results for the year ending 31 December 2013 in accordance with Rule 13.46 of the Listing Rules.
- (c) Both the authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (i) each executive Director will provide valid phone numbers or means of communication to the authorized representatives when he or she is travelling; and (ii) each Director will provide his or her mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange.
- (d) All executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time, when required.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the financial year ending December 31, 2013 and such appointment may be subject to extension by mutual agreement based on our Directors' review of the corporate governance status of our Group at that time.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

We have established the following three committees in our Board of Directors: an audit committee, a nomination committee and a remuneration committee. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors being Mr. Han Benwen, Mr. Xing Jian and Mr. Chen Yinghai. The chairman of the audit committee is Mr. Han Benwen, who holds appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Nomination Committee

We have established a nomination committee with written terms of reference. The current members of the nomination committee are Mr. Zhang, Mr. Han Benwen and Mr. Xing Jian. The nomination committee is chaired by Mr. Xing Jian. The primary function of the nomination committee is to make recommendations to our board to fill vacancies on our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of two independent non-executive Directors being Mr. Han Benwen and Mr. Xing Jian, and an executive Director being Mr. Zhang. The remuneration committee is chaired by Mr. Zhang, an executive Director. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

COMPENSATION OF THE DIRECTORS AND MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our Company's contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes) which were paid to our Directors for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 was approximately RMB55,000, RMB58,000, RMB57,000 and RMB140,000, respectively.

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes), which were paid by our Group to our five highest paid individuals for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010 were approximately RMB213,000, RMB229,000, RMB224,000 and RMB246,000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

During the same period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Under our arrangement currently in force, the aggregate remuneration of our Directors for the year ending December 31, 2011 is estimated to be approximately RMB5.2 million.

DIRECTORS' INTERESTS

Save as disclosed in this prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As of the Latest Practicable Date, save as Mr. Zhang's interests in the Shares which are disclosed in the section headed "Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering and Capitalization Issue" in Appendix VI to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised at all, our Company's authorized and issued share capital immediately following the Global Offering and the Capitalization Issue will be as follows:

US\$

Authorized share capital:

<u>10,000,000,000</u> Shares	<u>100,000,000</u>
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**Issued and to be issued, fully paid or credited
as fully paid upon completion of the Global Offering
and the Capitalization Issue:**

	Shares	US\$	Approximate percentage of issued share capital (%)
	1,000,000	10,000	0.02
	Shares in issue as of the date of this prospectus		
	4,999,000,000	49,990,000	84.94
	Shares to be issued under the Capitalization Issue		
	885,000,000	8,850,000	15.04
	Shares to be issued under the Global Offering		
	<u>5,885,000,000</u>	<u>58,850,000</u>	<u>100.00</u>
	Total		

Note:

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

SHARE CAPITAL

Assuming the Over-allotment Option is exercised in full, our Company's authorized and issued share capital immediately following the Global Offering and the Capitalization Issue will be as follows:

US\$

Authorized share capital:

<u>10,000,000,000</u> Shares	<u>100,000,000</u>
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**Issued and to be issued, fully paid or credited
as fully paid upon completion of the Global Offering
and the Capitalization Issue:**

Shares	US\$	Approximate percentage of issued share capital (%)
1,000,000	10,000	0.02
1,000,000 Shares in issue as of the date of this prospectus		
4,999,000,000	49,990,000	83.07
4,999,000,000 Shares to be issued under the Capitalization Issue		
1,017,750,000	10,177,500	16.91
1,017,750,000 Shares to be issued under the Global Offering		
<u>6,017,750,000</u>	<u>60,177,500</u>	<u>100.00</u>
Total		

Note:

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

SHARE CAPITAL

1. RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus, save for the entitlement under the Capitalization Issue.

2. GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option).

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold our next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed "Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011" in Appendix VI to this prospectus.

3. GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase of our Shares" in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold our next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company's shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed "Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be 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 our Group:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Zhang Shiping ⁽¹⁾	Interest in a controlled corporation	5,000,000,000	84.96%
Ms. Zheng Shuliang ⁽²⁾	Interest of spouse	5,000,000,000	84.96%
Hongqiao Holdings	Beneficial owner	5,000,000,000	84.96%

Notes:

- (1) Mr. Zhang is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the Shares held by Hongqiao Holdings.
- (2) Ms. Zheng, the spouse of Mr. Zhang, is deemed to be interested in all the Shares in which Mr. Zhang is interested.

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering and the Capitalization Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be 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 members of our Group.

CORNERSTONE INVESTORS

CORNERSTONE PLACING

We have entered into placing agreements with the Cornerstone Investors, who in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares that may be purchased with an aggregate amount of USD350 million (approximately HK\$2,725.8 million). Assuming an Offer Price of HK\$7.20, HK\$7.75 and HK\$8.30, the low end, the mid-point and the high end of the estimated Offer Price range set forth in this prospectus, respectively, the total number of Shares to be subscribed for by the Cornerstone Investors would be approximately 378.58 million Shares, 351.72 million Shares, and 328.41 million Shares representing approximately 42.8%, 39.7% and 37.1% of the total number of Offer Shares (assuming the Over-allotment Option is not exercised), respectively, and approximately 6.43%, 5.98% and 5.58% of the number of issued Shares of our Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), respectively.

Each of the Cornerstone Investors is independent from our Company and except that Mr. Joseph Lau, Luen-Hung and Mr. Thomas Lau, who is the ultimate controller of High Action Limited, are brothers, none of the Cornerstone Investors are related to each other. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective placing agreement. Immediately following the completion of the Global Offering, no Cornerstone Investor will have any board representation in our Company, nor will any Cornerstone Investor become a substantial shareholder of our Company. The shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares.

The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the “Structure of the Global Offering -The Hong Kong Public Offering”.

The Cornerstone Investors have agreed to either subscribe or purchase Shares at the Offer Price as part of the International Offering as follows:

Cornerstone Investor	Maximum Investment amount US\$	No. of Shares⁽¹⁾	Percentage of total number of Offer Shares⁽¹⁾⁽²⁾	Percentage of interest in our issued share capital immediately following the Global Offering⁽¹⁾⁽²⁾
Chow Tai Fook Nominee Limited	100 million	100,489,000	11.35%	1.71%
Chosen Elite Limited	100 million	100,489,000	11.35%	1.71%
Mr. Joseph Lau, Luen-Hung	75 million	75,366,500	8.52%	1.28%
High Action Limited	75 million	75,366,500	8.52%	1.28%
Total	350 million	351,711,000	39.74%	5.98%

Notes:

- (1) Rounded down to the nearest board lot of 500 Shares and assuming an Offer Price of HK\$7.75 (being the mid-point of the Offer Price range). Exchange rate of US\$1 to HK\$7.7879 was used in calculating the number of Shares. The final number of Shares purchased by the cornerstone investors will be calculated at the exchange rate published by The Hongkong Shanghai Banking Corporation after the close of business on the Price Determination Date.
- (2) Assuming the Over-Allotment Option is not exercised.

CORNERSTONE INVESTORS

OUR CORNERSTONE INVESTORS

We set forth below a brief description of our Cornerstone Investors:

Chow Tai Fook Nominee Limited is a company incorporated in Hong Kong and is principally engaged in the investment holding business. It is wholly and beneficially owned by Dato' Dr. Cheng Yu-Tung.

Chosen Elite Limited is a company incorporated in the British Virgin Islands and is wholly owned by Cheung Kong (Holdings) Limited ("Cheung Kong") (stock code: 0001). Cheung Kong is a company listed on the Main Board of the Hong Kong Stock Exchange and its principal business activities are investment holding and project management. Its subsidiaries are active in the field of property development and investment, hotel and serviced suite operation, property and project management and investment in securities.

Mr. Joseph Lau, Luen-Hung is the Chairman and Chief Executive Officer of Chinese Estates Holdings Limited ("Chinese Estates") (stock code: 0127). Chinese Estates is publicly listed on the Hong Kong Stock Exchange and its core businesses comprise property investment and property development.

High Action Limited is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Thomas Lau. High Action Limited is principally engaged in the business of investment.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as specified in such agreements;
- (2) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked; and
- (3) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated.

DISPOSAL RESTRICTION

Each of the Cornerstone Investors has agreed that, unless it has obtained prior written consent of each of the Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of or transfer any Shares subscribed pursuant to the International Offering or other securities of the Company which are derived from such Shares, other than transfers to any of its wholly-owned subsidiaries and such transfer can only be made when such wholly-owned subsidiary shall first give a written undertaking agreeing to, and the Cornerstone Investor shall first give a written undertaking to procure that such wholly-owned subsidiary will, be bound by the Cornerstone Investor's obligations under the cornerstone placing agreement.

FINANCIAL INFORMATION

The following discussion of our financial position and results of operations should be read in conjunction with our audited financial statements as of and for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010 including the notes thereto, attached as Appendix I to this prospectus. We have prepared our financial statements in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

In addition, our consolidated financial statements and the financial data included in this prospectus reflect certain discontinued operations, namely, the dyeing business, the caustic soda manufacturing business and the alumina agency business, which we disposed of on January 4, 2010, January 1, 2010 and December 31, 2009, respectively. Information relating to these discontinued operations is presented separately in our Consolidated Statements of Comprehensive Income, as a separate line item after profit from continuing operations, before our profit and total comprehensive income.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, actual outcome and developments are subject to a number of risks and uncertainties. Factors that could cause or contribute to such differences include those discussed in the section headed “Risk Factors” in this prospectus.

OVERVIEW

We were the fifth-largest aluminum product manufacturer in China, which is the fastest growing major aluminum market in the world, in terms of designed annual aluminum production capacity as of September 30, 2010, according to Antaike. As of the Latest Practicable Date, we had two manufacturing bases, Zouping Manufacturing Base and Weiqiao Manufacturing Base, with an aggregate designed annual production capacity of approximately 916,000 tons of aluminum products. In addition, our Binzhou Manufacturing Base commenced trial production in September 2010, which is expected to have an aggregate designed annual production capacity of approximately 310,000 tons of aluminum products, and as of the Latest Practicable Date, it had an aggregate designed annual production capacity of approximately 223,433 tons of aluminum products available to us. Our designed production capacity of aluminum products on a weighted average annualized basis was approximately 301,513 tons, 601,085 tons, 738,973 tons and 916,000 tons for the three years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, with utilization rates of approximately 103.1%, 102.6%, 98.3% and 110.3%, respectively, during the same periods.

Our Products

Our aluminum products consist of molten aluminum alloy, aluminum alloy ingots and aluminum busbars. We began manufacturing aluminum products in 2006 by using self-manufactured electrolytic aluminum, which are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. For details of our aluminum production process, see “Business – Production Process.” We sold approximately 276,712 tons, 610,057 tons, 731,043 tons and 747,027 tons of aluminum products for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our revenue generated from our aluminum products accounted for 100% of our revenue derived from our continuing operations for the years ended December 31, 2007, 2008 and 2009 and approximately 95.1% for the nine months ended September 30, 2010, respectively. Molten aluminum alloy is our major product,

FINANCIAL INFORMATION

the sales of which accounted for approximately 64.8%, 56.5%, 61.5% and 84.1% of our revenue derived from our aluminum products for the years ended December 31 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Compared with aluminum alloy ingots, molten aluminum alloy not only allows us to avoid incurring significant molding and other relevant costs, but also helps our customers to avoid cost for smelting or reheating aluminum alloy ingots for further processing as well as the relevant equipment, labor and storage costs. All of our aluminum alloy ingots are produced using self-manufactured molten aluminum alloy. Aluminum busbars are electrolytic aluminum blocks.

We are strategically headquartered in Zouping County, Shandong Province, one of the major aluminum product manufacturing bases in China, where a number of downstream aluminum fabrication product manufacturers are based. We are also connected to other major production bases of downstream fabrication aluminum products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province through developed transportation networks.

The following table sets forth the sales volume, revenue and average selling price and revenue derived from each type of our aluminum products as a percentage of our total revenue for the periods indicated:

	Year ended December 31,												Nine months ended September 30,								
	2007				2008				2009				2009				2010				
	Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		Average Revenue		Average Selling Price		
	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue
Molten aluminum alloy	184,436	2,920.2	15,833	64.8%	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	310,891	3,591.1	11,551	58.0%	633,018	8,439.8	13,333	84.1%	(1)
Aluminum alloy ingot	92,276	1,588.1	17,210	35.2%	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	225,273	2,550.2	11,320	41.3%	109,573	1,525.8	13,925	15.2%	
Aluminum busbar	-	-	-	-	-	-	-	-	7,159	90.2	12,609	1.0%	3,408	40.9	12,010	0.7%	4,436	66.8	15,057	0.7%	
Total	276,712	4,508.3	16,292	100.0%	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	539,572	6,182.2	11,458	100.0%	747,027	10,032.4	13,430	100.0%	

(1) The significant increase in our revenue attributable to our molten aluminum alloy products as a percentage of our total revenue for the nine months ended September 30, 2010 was primarily due to the significant increase in the sales volume of our molten aluminum products as a result of strong market demand, which outpaced our production output growth.

Our Main Cost Items

We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. In addition, we purchased electricity from Chuangye Group for 2007, 2008 and 2009, and we also purchased electricity from Gaoxin Aluminum & Power for 2008, 2009 and the nine months ended September 30, 2010. Gaoxin Aluminum & Power became our exclusive electricity supplier from January 2010. During the Track Record Period, we purchased coal through competitive bidding between a number of coal suppliers, which were Independent Third Parties, except that we purchased coal with a total price of approximately RMB442.1 million from Chuangye Group for 2009, which was priced at the then prevailing market price and accounted for approximately 50.9% of the amount of coal purchased by us for 2009. This was primarily because our secured coal supply was insufficient for our own electricity generating for that period due to the fact that we primarily purchased coal from the spot market in 2009, and we had to procure coal from Chuangye Group, which was our related party and had stable and sufficient coal supply due to its long-time operations of its own thermal power station and established long-term relationships with its coal suppliers, and such coal was all used for our power generation. Our Group has been able to procure

FINANCIAL INFORMATION

sufficient coal for our power generation since then by entering into one-year coal supply agreements with some of our coal suppliers. See “Business – Procurement – Raw materials – Procurement of alumina”, “Business – Electricity Supply – Electricity suppliers” and “Business – Electricity Supply – Our thermal power station – Coal procurement.”

On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its alumina business in the name of Aluminum & Power. This agreement was expired on December 31, 2009. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power. Since Chuangye Group’s disposal of the alumina production facilities to Gaoxin Aluminum & Power, neither Chuangye Group nor our Group has acquired any alumina production facilities or has been involved in alumina production or red mud production. If there is any environmental protection issues, including the red mud, with Gaoxin Aluminum & Power, as its major customer of alumina products, our reputation may be damaged. See “Business – Alumina Production’s Environmental Impacts – Environmental Protection of Gaoxin Aluminum & Power’s Alumina Production Business from 2010 onwards.”

The following table sets forth our average purchase price of alumina, average purchase price of electricity and average coal consumption cost, and the market prices or benchmark prices of alumina, electricity and coal in China for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
Alumina				
Our average purchase price (RMB/ton)	2,379	2,495	1,712	1,590 ⁽¹⁾
Average spot market price of alumina in China (RMB/ton)	3,148	2,885	2,000	2,326
Electricity				
Our average electricity purchase price (RMB/kWh) ⁽²⁾	0.385	0.403 ⁽³⁾	0.442 ⁽³⁾	0.291 ⁽⁴⁾
Benchmark price of Shandong Province ⁽⁵⁾ (RMB/kWh)	0.303	0.311 ⁽⁶⁾	0.318	0.318
Coal				
Our average coal consumption cost ⁽⁷⁾ (RMB/ton)	415	661 ⁽⁸⁾	500	578
Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories ⁽⁹⁾⁽¹⁰⁾	359	543	445	544

- (1) Gaoxin Aluminum & Power became our sole alumina supplier from January 2010. Our Group does not have any alternative arrangement for the supply of alumina. In January 2011, we received feedback from four major alumina suppliers, two in Shandong Province, one in Beijing and one in Henan Province, which were willing to provide us with certain price discounts. However, as these suppliers are not as close to our production bases as Gaoxin Aluminum & Power, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin Aluminum & Power.
- (2) Our Directors have confirmed that the price of electricity supplied to us by Gaoxin Aluminum & Power was determined through arm’s length negotiation between Gaoxin Aluminum & Power and us.
- (3) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power network by Gaoxin Aluminum & Power. Our Directors have confirmed that it is a market norm for the customers to bear the construction cost of power networks in the off-the-grid electricity market. See “Business – Electricity Supply – Electricity suppliers.”
- (4) Our average purchase price of electricity for the nine months ended September 30, 2010 was lower than that of 2008 and 2009, which was primarily due to the fact that the construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power’s generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin Aluminum & Power for the nine months ended September 30, 2010 was lower than the price of electricity purchased by us from Chuangye Group for 2008 and 2009.

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- (5) The benchmark price of Shandong Province is set by the Shandong Provincial Government and it refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier's operations and other factors.
- (6) This is the average benchmark price as the benchmark price was RMB0.303 per kWh from January 1, 2008 to June 30, 2008, and RMB0.318 from July 1, 2008 to December 31, 2008.
- (7) Our Group's average coal consumption cost is inclusive of transportation cost in China.
- (8) Our Group's average coal consumption cost was significantly higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories for 2008, which was primarily due to the fact that a large percentage of the coal consumed by our Group was of an average calorific value higher than 5,000 kilocalories for 2008.
- (9) According to Antaika, the Qinhuangdao coal price is the most frequently quoted benchmark price in the coal markets in Shandong Province and other regions in China, and is inclusive of transportation cost of coal transported to Qinhuangdao port, which is the largest coal shipping port in the world. Our Directors believe that Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories is most relevant to our average coal consumption cost.
- (10) *Source:* www.cctd.com.cn (中國煤炭市場網).

The following table sets forth, assuming that we purchased alumina at the average spot market price in China for the Track Record Period and we purchased electricity at the benchmark price of Shandong Province for the nine months ended September 30, 2010, which were higher than our average purchase prices of alumina and electricity, and that all other factors, including change in inventories, remain unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB in millions)			
Net profit of continuing operations (before minority interests)	903.9	283.6	577.1	2,965.4
Difference of alumina ⁽¹⁾	(298.0)	(350.9)	(300.5)	(789.1)
Difference of electricity ⁽²⁾	-	-	-	(89.6)
Adjusted net profit of continuing operations (before minority interests) ⁽³⁾	605.9	(67.3)	276.6	2,086.7

(1) Difference of alumina = actual purchase volume of alumina for the relevant period × (weighted average actual purchase price of alumina by our Group for the relevant period – average spot market price of alumina in China for the relevant period) × (1- statutory tax rate of the relevant period)

(2) Difference of electricity = actual purchase volume of electricity for the relevant period × (weighted average actual purchase price of electricity by our Group for the relevant period – benchmark price of Shandong Province for the relevant period) × (1- statutory tax rate of the relevant period)

(3) As our average coal consumption costs were higher than the Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories during the Track Record Periods, it is not necessary to make the adjustment to our financial results based on coal price changes.

Our Company and the Sole Sponsor are of the view that this analysis of the above-mentioned scenario is accurate and reasonable.

Our Performance

We achieved significant growth in our sales volume of aluminum products during the Track Record Period. The sales volume of our aluminum products increased by approximately 120.5% to approximately 610,057 tons for 2008 from approximately 276,712 tons for 2007. With the onset of the global economic downturn in the second half of 2008, the growth rates of aluminum production and consumption in China slowed down and the price of aluminum products experienced dramatic fluctuations in 2008 and 2009. As a result, our gross profit decreased significantly to approximately RMB533.5 million and approximately

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RMB899.3 million for 2008 and 2009, respectively, from approximately RMB1,390.4 million for 2007, and our net profit decreased significantly to approximately RMB283.6 million and approximately RMB577.1 million for 2008 and 2009, respectively, from approximately RMB903.9 million for 2007. In response to the global economic downturn, we closely monitored the market and negotiated purchase prices of coal and raw materials according to market conditions, reduced electricity consumption in our production process, strengthened our inventory management and quality control, optimized our manufacturing processes, and solidified our market position by establishing new sales and marketing teams covering Eastern and Southern China. Although our revenue from continuing operations decreased to approximately RMB8,668.4 million for 2009 from approximately RMB8,772.2 million for 2008, our results of operations for 2009 improved compared to our results of operations for 2008. The unit cost of our aluminum products sold decreased to approximately RMB10,627 per ton for 2009 from approximately RMB13,505 per ton in 2008 and the volume of aluminum products we sold increased by approximately 19.8% to approximately 731,043 tons for 2009 from approximately 610,057 tons for 2008. The net profit from our continuing operations increased by approximately 103.5% to approximately RMB577.1 million for 2009 from approximately RMB283.6 million for 2008. The unit cost of our aluminum products was approximately RMB8,256 per ton for the nine months ended September 30, 2010, and the volume of the aluminum products we sold was approximately 747,027 tons for the same period. The net profit from our continuing operations was approximately RMB2,965.4 million for the nine months ended September 30, 2010 compared to a net profit of approximately RMB212.0 million for the nine months ended September 30, 2009.

Our revenue increased by approximately 70.6% to approximately RMB10,546.5 million for the nine months ended September 30, 2010 from approximately RMB6,182.2 million for the nine months ended September 30, 2009, primarily due to an increase in both our sales volume and average selling price of our aluminum products. In addition, we started selling steam to Gaoxin Aluminum & Power in 2010 and generated revenue of approximately RMB514.1 million for the nine months ended September 30, 2010, which also contributed to the increase in our revenue. Our sales volume of aluminum products increased by approximately 38.4% to approximately 747,027 tons for the nine months ended September 30, 2010 from approximately 539,572 tons for the nine months ended September 30, 2009 primarily due to our increased production capacity and output. The average selling price of our aluminum products increased by approximately 17.2% to approximately RMB13,430 per ton for the nine months ended September 30, 2010 from approximately RMB11,458 per ton for the nine months ended September 30, 2009. As a result of (i) the significant increase in revenue mainly driven by the increase in our sales volume and average selling price underpinned by the recovery of the PRC economy which boasts market demand; (ii) decrease in unit cost of sales of aluminum products as a result of the significant decreases in the electricity cost per kWh and the unit cost of alumina, the net profit from our continuing operations increased to approximately RMB2,965.4 million for the nine months ended September 30, 2010 from approximately RMB212.0 million for the nine months ended September 30, 2009. Should there is any change in the factors mentioned above, our net profit may not grow at such rate or at all. See the risk factors headed “Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control.” and “We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”. The unit cost of our aluminum products sold was approximately RMB8,256 per ton for the nine months ended September 30, 2010.

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The following table sets forth the unit cost of sales of our aluminum products for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,	
	2007	2008	2009	2009	2010
Unit cost of sales of our aluminum products (RMB/ton)	11,268	13,505	10,627	10,807	8,256

Procurement of Alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 63.2%, 69.1%, 73.4% and 61.6% of our total purchase of raw materials for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our aggregate alumina purchase costs amounted to approximately RMB1,374.7 million, RMB2,996.0 million, RMB2,382.3 million and RMB2,272.7 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, and the average purchase price was approximately RMB2,379 per ton, RMB2,495 per ton, RMB1,712 per ton and RMB1,590 per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina was approximately RMB3,148 per ton, RMB2,885 per ton, RMB2,000 per ton and RMB2,326 per ton for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, in China.

Electricity Supply

Electricity is also one of the principal cost components in manufacturing our aluminum products. Our electricity cost was approximately RMB2,374.1 million for the nine months ended September 30, 2010, accounting for approximately 36.5% of the cost of sales during that period. During the Track Record Period, we purchased electricity from Chuangye Group and Gaoxin Aluminum & Power. To further secure a stable electricity supply, our own thermal power station started to supply electricity to us in January 2007. As of the Latest Practicable Date, our power station had an aggregate installed capacity of 1,080 MW. In addition, we started to sell steam produced by our thermal power station to Gaoxin Aluminum & Power from January 1, 2010. The revenue from the sale of steam was approximately RMB514.1 million for the nine months ended September 30, 2010, accounting for approximately 4.9% of our revenue of continuing operations during the same period.

Discontinued Operations

In addition, we had discontinued operations during the Track Record Period. On May 25, 2006, Aluminum & Power entered into the Agency Agreement with Chuangye Group, pursuant to which Chuangye Group operated its own alumina business in the name of Aluminum & Power for the period from May 26, 2006 to December 31, 2009. In addition, we operated a dyeing business under Shandong Hongqiao and a caustic soda manufacturing business under Marine Chemical. To focus on our aluminum production business, we disposed of the dyeing business and the caustic soda manufacturing business in early 2010. The profit from these discontinued operations was approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, and the net loss was approximately RMB9.4 million for 2009. Such decrease in profit during the Track Record Period and the net loss in 2009 was primarily due to the decrease in management fee rates relating to the alumina agency business from 2007 to 2009, and the fact that no such management fee was paid for the nine months ended September 30, 2010 as a result of the expiration of the Agency Agreement. See “Business – Discontinued Operations”

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BASIS OF PRESENTATION

Prior to the Reorganization, the operations of manufacture and sales of aluminum products and other businesses were carried out by Shandong Hongqiao and its subsidiaries. Pursuant to the Reorganization, (1) our Company was incorporated by Hongqiao Holdings, (2) Hongqiao Investment and Hongqiao Hong Kong were also incorporated and became subsidiaries of our Company, and (3) Profit Long Investment and Chuangye Group transferred their 98% and 2% equity interests, respectively, in Shandong Hongqiao to Hongqiao Hong Kong for a consideration of RMB3,193,921,000 and RMB65,182,000, respectively. As a result, our Company became the holding company of Shandong Hongqiao and its subsidiaries in March 2010. Our Group comprising our Company and its subsidiaries resulting from the Reorganization is regarded as a continuing entity.

Our consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if our Company had been the holding company of Shandong Hongqiao throughout the Track Record Period. Our consolidated statements of financial position as of December 31, 2007, 2008 and 2009 and September 30, 2010 present the assets and liabilities of the companies now comprising our Group as of the respective dates as if our Company had been the holding company of Shandong Hongqiao at those dates.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be, affected by a number of factors, including the following:

- demand for and prices of aluminum products;
- the expansion of our production capacity in recent years;
- prices of raw materials;
- electricity and coal prices; and
- the business environment in the PRC.

Demand for and prices of aluminum products

We derive a substantial majority of our revenue from the sale of aluminum products. As a result, our operating results are directly affected by the demand for and price of aluminum products. Aluminum product prices have historically been subject to fluctuations in response to market forces, such as global mine production, roasting and smelting production, global and PRC economic conditions and industrial demand. In recent years, there have been significant movements in aluminum prices. See “Industry Overview – Price – Historical price overview.” These movements have been driven by the end-use of aluminum products in construction, electrical, transport and consumer durables. For example, for 2007, 2008 and 2009, the average selling price of our aluminum products per ton was approximately RMB16,292, RMB14,379 and RMB11,858, respectively. The decline in the average selling price for 2008 and 2009 was primarily due to the global financial crisis and the resulting slowdown of the PRC economy that started in the second half of 2008. As a result, our gross profit margin of continuing operations was 6.1% for 2008 and 10.4% for 2009, compared to 30.8% for 2007. The average selling price of our aluminum products increased to RMB13,430 per ton for the nine months ended September 30, 2010 from RMB11,458 per ton for the nine months ended September 30, 2009, which was primarily driven by the recovery of the PRC economy. Although the PRC economy has since gradually recovered, any future slowdown of the PRC economy could result in reduced demand for aluminum and in turn the demand for

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and price of our aluminum products, which would have an adverse effect on our business, financial condition and results of operations. Our gross profit margin of continuing operations increased to approximately 38.3% for the nine months ended September 30, 2010 from approximately 10.4% for 2009, and our net profit margin of continuing operations increased significantly to approximately 28.1% for the nine months ended September 30, 2010 from approximately 6.7% for 2009. Such significant increases in our gross profit margin and net profit margin for the nine months ended September 30, 2010 compared to the year of 2009 was primarily due to an increase in the average selling price of our aluminum products, and a decrease in the unit cost of our aluminum products for the nine months ended September 30, 2010. In particular, as we derive a majority of our revenue from sales of molten aluminum alloy products, demand for and the selling prices of our molten aluminum alloy products significantly affect our financial condition and results of operations.

The following table shows selected historical operating data with respect to the sales of our aluminum products for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	Sales volume (tons)	276,712	610,057	731,043	539,572
Average selling price (RMB per ton)	16,292	14,379	11,858	11,458	13,430
Revenue (RMB in millions).	4,508.3	8,772.2	8,668.4	6,182.2	10,032.4

The following table shows the decrease/increase in our revenue and gross profit in different scenarios, assuming all other factors remain the same, for the periods indicated:

Decrease/increase in average selling price of our aluminum products	Decrease/increase for 2007		Decrease/increase for 2008		Decrease/increase for 2009		Decrease/increase for nine months ended September 30, 2010	
	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit
	(RMB in million)		(RMB in million)		(RMB in million)		(RMB in million)	
1.0%	45.1	45.1	87.7	87.7	86.7	86.7	100.3	100.3
5.0%	225.4	225.4	438.6	438.6	433.4	433.4	501.6	501.6
10.0%	450.8	450.8	877.2	877.2	866.9	866.9	1,003.2	1,003.2

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Expansion of our production capacity

Our production capacity has expanded significantly in recent years. The following table sets forth information relating to our weighted average designed annual production capacity for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 and our production volume for the same periods:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	Weighted average designed annual production capacity (tons) ⁽¹⁾	301,513	601,085	738,973
Production volume (tons)	310,805	616,972	726,192	757,678
Utilization rate ⁽²⁾	103.1%	102.6%	98.3%	110.3% ⁽³⁾

(1) The weighted average designed annual production capacity for each period is the result of (i) the total sum of the designed annual production capacity of each of our production lines multiplied by the months in that period that such production line possessed such capacity (ii) divided by 12.

(2) Utilization rate is calculated by dividing the production volume for the relevant period by the weighted average designed annual production capacity as of the end of the relevant year.

(3) This is an annualized utilization rate.

We believe that the increases in our production capacity during the Track Record Period have strengthened our market position and enhanced our competitiveness in the market. As of September 30, 2010, we had an aggregate designed annual production capacity of 916,000 tons of aluminum products and ranked fifth among Chinese aluminum producers in terms of designed production capacity, according to Antaiko. We intend to continue to expand our production capacity in the future. We are in the process of developing our Binzhou Manufacturing Base Phase I and Phase II, and expect to start the construction of our Binzhou Manufacturing Base Phase III in the second half of 2011. Upon the completion of these projects, our aggregate designed annual production capacity will increase by 910,000 tons of aluminum products. See “Business – Our Production Facilities” for more details about our expansion plan.

Prices of raw materials

Purchase of raw materials is a major component of our cost of sales, representing approximately 69.7%, 52.7%, 41.8% and 56.7% of our total cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. As a result, our business, financial condition and results of operations are affected by movements in raw material prices.

The principal raw material used in our production is alumina. We purchased all the alumina from Chuangye Group with a total amount of approximately RMB1,374.7 million, RMB2,996.0 million and RMB2,382.3 million, respectively, for 2007, 2008 and 2009, accounting for approximately 44.1%, 36.4% and 30.7% of the cost of sales of our aluminum products for 2007, 2008 and 2009, respectively. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin Aluminum & Power, an Independent Third Party. Our Directors and the Sole Sponsor are of the view that Gaoxin Aluminum & Power and its associates are independent third parties to Chuangye Group. We have entered into a three-year alumina supply agreement with Gaoxin Aluminum & Power, which provides that the base price of alumina for each year is determined with reference to the sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties in early January of that year. In addition, as long as we meet certain conditions, Gaoxin Aluminum & Power agreed to offer us price discounts which will be determined through negotiations. See “Business – Procurement – Raw Materials – Procurement of alumina.” Gaoxin Aluminum & Power became our sole alumina supplier from January 1, 2010. For the

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nine months ended September 30, 2010, our purchase of alumina amounted to approximately RMB2,272.7 million, accounting for approximately 34.9% of our cost of sales for the period. An increase in the prices of alumina would negatively impact our gross margins if we are not able to offset such price increase through increases in the selling prices of our aluminum products.

The following table shows the increase in our purchase of alumina in different scenarios, assuming all other factors remain the same, for the periods indicated:

Increase in average purchase price of alumina	Increase in purchase of alumina for 2007	Increase in purchase of alumina for 2008	Increase in purchase of alumina for 2009	Increase in purchase of alumina for the nine months ended September 30, 2010
	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
1.0%	13.7	30.0	23.8	22.7
5.0%	68.7	149.8	119.1	113.6
10.0%	137.5	299.6	238.2	227.3

For 2007, 2008 and 2009, Chuangye Group sold alumina to us at production cost, and for the nine months ended September 30, 2010, Gaoxin Aluminum & Power sold alumina to us with discounts to its alumina sales price of alumina supplied by Gaoxin Aluminum & Power to other independent third parties. As the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin Aluminum & Power are different, our historical raw materials cost and product cost structure may not be indicative of our raw materials cost and product cost structure in the future. As a result, investors may have difficulties in evaluating our business and prospects because our historical performance may not be indicative of our business, financial condition and results of operations in the future. See “Risk Factors – Risks Relating to Our Business – It may be difficult for investors to evaluate our business and prospects due to our limited operating history and changes in our cost structure.”

The following table sets forth our average purchase price of alumina from Chuangye Group for 2007, 2008 and 2009 and from Gaoxin Aluminum & Power for the nine months ended September 30, 2010, and the average spot market price of alumina in China, according to Antaika, for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB)	(RMB)	(RMB)	(RMB)
Chuangye Group	2,379	2,495	1,712	–
Gaoxin Aluminum & Power	–	–	–	1,590
Average spot market price of alumina in China	3,148	2,885	2,000	2,326

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We procured alumina exclusively from Chuangye Group for 2007, 2008 and 2009, and we procured alumina exclusively from Gaoxin Aluminum & Power from January 2010. Our purchase price of alumina provided by Chuangye Group increased from RMB2,379 per ton for 2007 to RMB2,495 per ton for 2008, and decreased to RMB1,712 per ton for 2009, which was primarily due to the price fluctuations of bauxite, which increased from 2007 to 2008, and then decreased from 2008 to 2009, according to Antaika. Although, according to Antaika, bauxite prices rebounded slightly for the nine months ended September 30, 2010, such prices still remained relatively low. As a result of and based on our negotiation with Gaoxin Aluminum & Power, our purchase price of alumina provided by Gaoxin Aluminum & Power further decreased to RMB1,590 per ton for the same period. Due to our arrangements with Chuangye Group and Gaoxin Aluminum & Power described above, our average purchase prices of alumina from Chuangye Group and Gaoxin Aluminum & Power were lower than the average spot market prices of alumina in China during the Track Record Period. If we had purchased alumina at the average spot market prices in China during the Track Record Period, and assuming all other factors, including change in inventories, remain unchanged, our total purchase costs of alumina would have increased by approximately RMB444.8 million, RMB467.9 million, RMB400.7 million and RMB1,052.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

The following table sets forth, assuming that we purchased alumina at average spot market price in China and that all other factors, including change in inventories, remain unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
Net profit of continuing operations (before minority interests)	903.9	283.6	577.1	2,965.4
Difference ⁽¹⁾	(298.0)	(350.9)	(300.5)	(789.1)
Adjusted net profit of continuing operations (before minority interests)	605.9	(67.3)	276.6	2,176.3

(1) Difference = actual purchase volume of alumina in the relevant period × (weighted average actual purchase price of alumina by our Group in the relevant period – average spot market price of alumina in China in the relevant period) × (1- statutory tax rate of the relevant period)

Our Company and the Sole Sponsor are of the view that this analysis on the above-mentioned scenario is accurate and reasonable.

According to Antaika, the average spot price of alumina in China increased to RMB2,326 per ton for the nine months ended September 30, 2010 from RMB2,000 per ton for 2009, which was primarily due to the strong market demand for alumina in the PRC. On the other hand, our average purchase price of alumina decreased to RMB1,590 per ton for the nine months ended September 30, 2010 from RMB1,712 per ton for 2009. Our Directors believe that such decrease in our average purchase price of alumina for the nine months ended September 30, 2010 was primarily due to our large purchase volume of alumina as well as our ability to negotiate discounts with Gaoxin Aluminum & Power pursuant to the alumina supply agreement with Gaoxin Aluminum & Power. In addition, according to Antaika, the average market price of bauxite, the principal raw material for alumina production, decreased significantly from late 2008 to early 2009 due to the global financial crisis, and fluctuated within a relatively narrow band from early

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2009. However, Chuangye Group used inventory of bauxite purchased in 2008 to produce alumina in early 2009, and our Directors believe that as a result, Chuangye Group's average bauxite cost for 2009 was higher than Gaoxin Aluminum & Power's average bauxite cost for the nine months ended September 30, 2010. In addition, we purchased 1,429,405 tons of alumina from Gaoxin Aluminum & Power for the nine months ended September 30, 2010 compared with 1,391,506 tons of alumina we purchased from Chuangye Group for the whole year of 2009, which our Directors believe helped Gaoxin Aluminum & Power improve the utilization rate of its alumina production facilities. As such, our Directors believe that Gaoxin Aluminum & Power's alumina production cost for the nine months ended September 30, 2010 was lower than Chuangye Group's alumina production cost of RMB1,712 for 2009.

Electricity and coal prices

Our aluminum production process requires a stable supply of electricity in large quantities. Our electricity cost was approximately RMB1,159.4 million, RMB3,381.8 million, RMB3,870.9 million and RMB2,374.1 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively, accounting for approximately 37.2%, 41.0%, 49.8% and 36.5% of our cost of sales during the same periods.

During the Track Record Period, the majority of electricity we consumed was purchased from external electricity suppliers. We expect to continue to purchase a substantial amount of electricity. Therefore, the price of electricity directly affects our cost of electricity and consequently our profit margins and results of operations. We purchased electricity from external suppliers for an aggregate amount of approximately RMB936.4 million, RMB2,369.2 million, RMB3,210.6 million and RMB1,243.9 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

To secure a stable electricity supply, we commenced the construction of our own thermal power station in 2005, which started to supply electricity to us in January 2007. As of the Latest Practicable Date, our thermal power station had an aggregate capacity of 1,080 MW. Of our total electricity consumption volume for 2007, 2008, 2009 and the nine months ended September 30, 2010, approximately 22.7%, 33.5%, 30.1% and 57.4% was generated by our own thermal power station, respectively. It generally costs less to generate electricity with our power station than to purchase electricity from external suppliers. The cost of electricity generated in-house was approximately RMB283.0 million, RMB1,085.4 million, RMB917.4 million and RMB1,131.0 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Coal prices directly affects our electricity generation cost. Coal prices in China increased significantly in 2008 compared to 2007 primarily due to strong demand for coal driven by the economic growth in China. Coal prices, however, declined significantly in late 2008 due to the global economic downturn, but have since gradually stabilized. Any significant increase in coal prices in the future would increase our electricity generation cost and materially and adversely affect our profit margins and results of operations. We purchased coal for an aggregate amount of approximately RMB224.3 million, RMB899.0 million, RMB869.1 million and RMB1,354.0 million for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

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The following table shows the increase in our purchase of electricity from our external supplier in different scenarios, assuming all other factors remain the same, for the periods indicated:

Increase in average purchase price of electricity from external supplier	Increase in purchase of electricity from external supplier for 2007	Increase in purchase of electricity from external supplier for 2008	Increase in purchase of electricity from external supplier for 2009	Increase in purchase of electricity from external supplier for the nine months ended September 30, 2010
	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
1.0%	9.4	23.7	32.1	12.4
5.0%	46.8	118.5	160.5	62.2
10.0%	93.6	236.9	321.1	124.4

The business environment in the PRC

We derive our revenue primarily from sales of aluminum products in China. Economic growth in China has a direct impact on virtually all aspects of our operations, including particularly the level of demand for our products, the availability and prices of our raw materials, costs of electricity and coal and our other operating expenses. The slowdown of the PRC economy resulting from the global economic downturn in the second half of 2008 caused aluminum prices in China to decline significantly through the first quarter of 2009, which in turn caused a significant decrease in our gross margin for 2008 and 2009 compared to 2007. Although the PRC economy has gradually recovered and demand for aluminum is expected to increase, any adverse change in the business environment in the PRC could materially and adversely affect our results of operations. See “Risk Factors – Risks Relating to Our Business – The global financial crisis which commenced in 2008 has had negative impact on the global economy, including the aluminum industry. If the economic downturn continues, it may materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 3 to the Accountants’ Report included in Appendix I in this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sale of goods is recognized when the goods are delivered and title has passed.

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Service income is recognized when the services are provided.

Deposits received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials other than coal and alumina is calculated using the first-in, first-out method while cost of coal, alumina and other inventories are calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Impairment of tangible and intangible assets

At the end of each reporting period, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

FINANCIAL INFORMATION

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

DESCRIPTION OF THE MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Continuing operations

Revenue

We derive revenue primarily from sales of aluminum products, which accounted for all of our revenue for 2007, 2008 and 2009 and 95.1% of our revenue for the nine months ended September 30, 2010. The following table sets forth the sales volume, revenue, average selling price and revenue derived from each of our molten aluminum alloy, aluminum alloy ingot and aluminum busbars products as a percentage of our total revenue for the periods indicated:

	Year ended December 31,												Nine months ended September 30,									
	2007				2008				2009				2009				2010					
	Average Revenue		Selling Price		Average Revenue		Selling Price		Average Revenue		Selling Price		Average Revenue		Selling Price		Average Revenue		Selling Price			
	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	(RMB)	(RMB/ton)	Percentage of revenue	
Molten aluminum alloy . . .	184,436	2,920.2	15,833	64.8%	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	310,891	3,591.1	11,551	58.0%	633,018	8,439.8	13,333	84.1%		
Aluminum alloy ingot . . .	92,276	1,588.1	17,210	35.2%	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	225,273	2,550.2	11,320	41.3%	109,573	1,525.8	13,925	15.2%		
Aluminum busbar	-	-	-	-	-	-	-	-	7,159	90.2	12,609	1.0%	3,408	40.9	12,010	0.7%	4,436	66.8	15,057	0.7%		
Total	276,712	4,508.3	16,292	100.0%	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	539,572	6,182.2	11,458	100.0%	747,027	10,032.4	13,430	100.0%		

(1) The significant increase in our revenue attributable to our molten aluminum alloy products as a percentage of our total revenue for the nine months ended September 30, 2010 was primarily due to the significant increase in the sales volume of our molten aluminum products as a result of strong market demand, which outpaced our production output growth.

In addition, we started to sell steam produced by our thermal power station to Gaoxin Aluminum & Power on January 1, 2010. The revenue derived from sales of steam was approximately RMB514.1 million for the nine months ended September 30, 2010, or 4.9% of our revenue for the period.

FINANCIAL INFORMATION

Cost of sales

Our cost of sales mainly consists of purchase of raw materials, electricity, depreciation and amortization, and labor costs. The following table sets forth a breakdown of our cost of sales and its percentage for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2007		2008		2009		2009		2010	
	RMB'000	Percentage of total cost of sales	RMB'000	Percentage of total cost of sales	RMB'000	Percentage of total cost of sales	RMB'000	Percentage of total cost of sales	RMB'000	Percentage of total cost of sales
Purchase of raw materials	2,173,570	69.7%	4,338,846	52.7%	3,244,183	41.8%	2,620,012	44.9%	3,688,924	56.7%
Electricity	1,159,381	37.2%	3,381,817	41.0%	3,870,932	49.8%	3,000,652	51.5%	2,374,089	36.5%
Depreciation	134,636	4.3%	270,250	3.3%	313,159	4.0%	226,556	3.9%	325,610	5.0%
Labor	70,407	2.3%	147,598	1.8%	135,057	1.7%	91,278	1.6%	180,045	2.8%
Repairs and packaging	22,905	0.7%	39,534	0.5%	27,368	0.4%	19,509	0.3%	38,936	0.6%
Change in inventories	(427,235)	(13.7%)	15,844	0.2%	195,628	2.5%	(79,915)	(1.4%)	(315,950)	(4.9%)
Others	(15,785)	(0.5%)	44,817	0.5%	(17,229)	(0.2%)	(46,883)	(0.8%)	212,089	3.3%
Total	3,117,879	100%	8,238,706	100%	7,769,098	100%	5,831,209	100.0%	6,503,743	100.0%

We use various raw materials in our aluminum production process, including primarily alumina, carbon anodes, fluorides and various other metals and materials. Purchase of raw materials accounted for approximately 69.7%, 52.7%, 41.8% and 56.7% of cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Purchase of raw materials as a percentage of cost of sales declined from 2007 to 2009 due primarily to the decreases in raw material prices driven primarily by the global economic downturn that started in the second half of 2008. Purchase of raw materials as a percentage of cost of sales increased for the nine months ended September 30, 2010 as compared to the same period of 2009, which was primarily due to (i) a decrease in the average electricity cost to produce a ton of aluminum products, which was also an important component of our cost of sales, and (ii) an increase in the market prices of carbon anodes.

Electricity cost is another major component of our cost of sales, accounting for approximately 37.2%, 41.0%, 49.8% and 36.5% of our cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Electricity cost comprises cost of electricity purchased from external suppliers and costs of electricity generated by our own thermal power station.

Depreciation of property, plant and equipment accounted for approximately 4.3%, 3.3%, 4.0% and 5.0% of our cost of sales for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Labor costs include salary, benefits and other expenses relating to staff directly involved in our production process. As our production process is highly mechanized, labor costs only account for a small percentage of our cost of sales.

Change in inventories represents the difference between the inventory balances as of the beginning and end of each year.

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The following table sets forth the average alumina purchase cost and average electricity cost for a ton of aluminum products sold by us for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
Alumina ¹	4,968	4,911	3,259	3,403	3,042
Electricity ²	4,190	5,543	5,295	5,561	3,178

Notes:

1. The unit cost of alumina equals to the total purchase cost of alumina for the period indicated divided by the total volume of aluminum products sold by us for such period.
2. The unit cost of electricity equals to the total purchase cost of electricity from external supplier and the cost of electricity generated internally by our thermal power station, which are allocated to the cost of our aluminum products sold, for the period indicated divided by the total volume of aluminum products sold by us for such period.

Our purchase cost of alumina for a ton of aluminum products sold decreased for the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009 primarily due to the decrease in our average alumina purchase price. The spot market price for alumina increased for the nine months ended September 30, 2010, according to Antaika. In this regard, it should be noted that despite the increased in the spot market price for alumina, our purchase cost of alumina for a ton of aluminum products decreased.

According to Antaika, while bauxite prices, the key raw material of alumina, rebounded slightly for the nine months ended September 30, 2010, such prices still remained relatively low. As a result and based on our negotiation with Gaoxin Aluminum & Power taking into account our large purchase volume of alumina, term of commitment, the payment of the RMB400 million deposit as well as savings in Gaoxin Aluminum & Power's costs and expenses under such arrangement, our purchase price of alumina provided by Gaoxin Aluminum & Power decreased to RMB1,590 per ton for the same period despite the fact that the spot market price for alumina increase during the same period.

The purchase cost of alumina for a ton of aluminum products dropped significantly from 2008 to 2009 due to the decreased purchase price of alumina as a result of a decline in the price of bauxite, which is the major raw material for the production of alumina, driven by the global economic downturn. The purchase cost of alumina for a ton of aluminum products sold remained relatively stable from 2007 to 2008.

The unit cost of electricity for a ton of our aluminum products sold remained relatively stable from 2008 to 2009. The unit cost of electricity for a ton our aluminum products sold increased significantly from 2007 to 2008, primarily due to (i) the higher prices of electricity purchased from Chuangye Group and Gaoxin Aluminum & Power, and (ii) an increase in our average cost to generate electricity driven by higher coal prices for 2008 prior to the global economic downturn.

Our unit cost of electricity for a ton of aluminum products sold decreased significantly for the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009 primarily due to (i) a decrease in the price of electricity purchased from Gaoxin Aluminum & Power as the purchase price for the nine months ended September 30, 2009 also included the amortized construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power's generators, which was fully amortized by the end of 2009; (ii) a decrease in the unit cost of the electricity generated by our thermal power station primarily attributable to an increase in its utilization rate; and (iii) an increase in the proportion of electricity generated by our thermal power station, the unit cost of which was significantly lower than the unit cost of electricity purchased from Gaoxin Aluminum & Power.

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The following table sets forth the unit cost of sales of our aluminum products for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,	
	2007	2008	2009	2009	2010
Unit cost of sales of our aluminum products (RMB/ton)	11,268	13,505	10,627	10,807	8,256

Our unit cost of sales of aluminum products decreased to RMB8,256 per ton for the nine months ended September 30, 2010 from RMB10,807 per ton for the nine months ended September 30, 2009, because our cost of sales increased by a smaller percentage than the increase in our sales volume of aluminum products, which was in turn primarily due to significant decreases in electricity cost per kWh and the unit cost of alumina, partially offset by an increase in the unit cost of carbon anodes. Our unit cost of sales of aluminum products decreased to RMB10,627 per ton for 2009 from RMB13,505 per ton for 2008, because our cost of sales decreased while our sales volume of aluminum products increased, which was in turn primarily due to a decrease in purchase of raw materials, as well as a decrease in unit electricity cost. Our unit cost of sales of aluminum products increased to RMB13,505 per ton for 2008 from RMB11,268 per ton for 2007, because our cost of sales increased by a larger percentage than the increase in our sales volume of aluminum products, which was in turn primarily due to an increase in the unit cost of electricity, as partially offset by a decrease in the unit cost of alumina.

Other income and gain and loss

Other income and gain and loss primarily consist of net gain on sales of scrap materials, including primarily carbon anode slag, net gain on sales of materials, including primarily excess coal, foreign exchange gains, interest income and others, including forfeited deposits and penalties for contractual breach from suppliers.

Distribution and selling expenses

Distribution and selling expenses consist primarily of transportation costs. Distribution and selling expenses also include salaries and benefits for our sales and marketing personnel.

Administrative expenses

Administrative expenses consist primarily of administrative and management staff salaries and benefits, rental expenses, office expenses, stamp duty and business taxes, and other expenses.

Finance costs

Our finance costs consist of interest expenses on bank borrowings and discount interest paid in discounting bills we receive from our customers as payments for our products.

Other expenses

Other expenses mainly include expenses for professional services incurred for the Listing.

Income tax

Our effective tax rate for our continuing operations for 2007, 2008, 2009 and the nine months ended September 30, 2010 was approximately 33.4%, 25.9%, 25.4% and 25.0%, respectively. The fluctuation in our effective tax rates was due to the New EIT Law, which reduced enterprise income tax rate from 33% to 25% from January 1, 2008. The tax rates applicable to our PRC subsidiaries as set forth in note 11 to the Accountants' Report included in Appendix I in this prospectus.

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We are not subject to Cayman Islands profits tax as we had no assessable income arising in or derived from the Cayman Islands during the Track Record Period. We are not subject to Hong Kong profits tax as we had no assessable income arising in or derived from Hong Kong during the Track Record Period.

Our Directors confirm that, pursuant to the confirmation letters with respect to Aluminum & Power issued by the Zouping County State Tax Bureau and the Zouping County Local Tax Bureau on October 15, 2010, the confirmation letters with respect to Shandong Hongqiao issued by the Zouping County State Tax Bureau and the Zouping County Local Tax Bureau on October 15, 2010 and the confirmation letters with respect to Zhengtong issued by the Binzhou State Tax Bureau of the Economic Development District and the Economic Development District Office of the Binzhou Local Tax Bureau on October 18, 2010, we have made all the required tax filings under the relevant tax laws and regulations in the respective jurisdictions, have paid all outstanding tax liabilities, and are not subject to any dispute or potential dispute with tax authorities.

Discontinued operations

Profit for the year from discontinued operations

In addition to aluminum production, we were engaged in the dyeing business, the caustic soda manufacturing business and the alumina agency business, which were discontinued as of January 4, 2010, January 1, 2010 and December 31, 2009, respectively. The dyeing business ceased production in January 2008 while the caustic soda manufacturing business was operational only in 2009. Pursuant to the Agency Agreement between Chuangye Group and Aluminum & Power dated May 25, 2006, Chuangye Group agreed to pay a management fee to Aluminum & Power for the sales of alumina to third parties at a rate of RMB400, RMB200 and RMB100 per ton for 2007, 2008 and 2009, respectively. The parties believed at the time that the expected sales volume growth over the term of the agreement would offset the decreases in the management fee rate. Management fee income was net of sales tax and amortization of service rights arising from the Agency Agreement. Amortization was RMB111.9 million for each of 2007, 2008 and 2009. See “Business – Discontinued Operations.”

Information relating to these discontinued operations is presented separately in our consolidated statements of comprehensive income, on separate line item after profit from continuing operations, before our profit and total comprehensive income. Profit (loss) from discontinued operations represents profit (loss) from these three discontinued businesses. Profit from our discontinued operations was approximately RMB425.4 million, RMB145.3 million and RMB31.5 million for 2007, 2008 and the nine months ended September 30, 2010, respectively, while loss from our discontinued operations was RMB9.4 million for 2009.

FINANCIAL INFORMATION

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our consolidated statements of comprehensive income:

Consolidated Statements of Comprehensive Income

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	(RMB in thousand)				
	(unaudited)				
CONTINUING OPERATIONS					
Revenue	4,508,281	8,772,162	8,668,428	6,182,196	10,546,533
Cost of sales	(3,117,879)	(8,238,706)	(7,769,098)	(5,831,209)	(6,503,743)
Gross profit	1,390,402	533,456	899,330	350,987	4,042,790
Other income and gain and loss . . .	75,306	178,649	97,216	94,763	153,059
Distribution and selling expenses . .	(10,911)	(52,849)	(40,961)	(31,788)	(15,994)
Administrative expenses	(42,070)	(83,734)	(92,335)	(62,470)	(75,552)
Finance costs	(55,970)	(193,018)	(89,243)	(65,388)	(130,797)
Other expenses	–	–	–	–	(19,693)
Profit before taxation	1,356,757	382,504	774,007	286,104	3,953,813
Income tax credit	(452,855)	(98,921)	(196,924)	(74,134)	(988,378)
Profit for the year/period from continuing operations	903,902	283,583	577,083	211,970	2,965,435
DISCONTINUED OPERATIONS					
Profit (loss) for the year/period from discontinued operations . . .	425,398	145,291	(9,441)	(28,682)	31,515
	<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Profit and total comprehensive income attributable to					
Owners of the Company	1,302,714	420,297	556,289	179,622	2,972,457
Minority interests	26,586	8,577	11,353	3,666	24,493
	<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Earnings per share, in RMB					
From continuing and discontinued operations					
Basic	<u>0.26</u>	<u>0.08</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From continuing operations					
Basic	<u>0.18</u>	<u>0.06</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From discontinued operations					
Basic	<u>0.08</u>	<u>0.02</u>	<u>–</u>	<u>–</u>	<u>–</u>

FINANCIAL INFORMATION

The following table sets forth certain items of our results of continuing operations as a percentage of revenue for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Continuing Operations					
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	(69.2)	(93.9)	(89.6)	(94.3)	(61.7)
Gross profit	30.8	6.1	10.4	5.7	38.3
Other income and gain and loss. . .	1.7	2.0	1.1	1.5	1.5
Distribution and selling expenses. .	(0.3)	(0.6)	(0.5)	(0.5)	(0.2)
Administrative expenses	(0.9)	(1.0)	(1.1)	(1.0)	(0.7)
Finance costs	(1.2)	(2.2)	(1.0)	(1.1)	(1.2)
Other expenses	-	-	-	-	(0.2)
Profit before taxation	30.1	4.3	8.9	4.6	37.5
Income tax (expense)	(10.0)	(1.1)	(2.3)	(1.2)	(9.4)
Profit for the year/period from continuing operations	20.1	3.2	6.6	3.4	28.1

Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

Revenue

Our revenue increased by approximately 70.6% to approximately RMB10,546.5 million for the nine months ended September 30, 2010 from approximately RMB6,182.2 million for the nine months ended September 30, 2009, primarily due to an increase in both our sales volume and average selling price of our aluminum products. Our sales volume of aluminum products increased by approximately 38.4% to approximately 747,027 tons for the nine months ended September 30, 2010 from approximately 539,572 tons for the nine months ended September 30, 2009 primarily due to our increased production capacity and output as the result of an increased market demand as the PRC economy recovered. The average selling price of our aluminum products increased by approximately 17.2% to approximately RMB13,430 per ton for the nine months ended September 30, 2010 from approximately RMB11,458 per ton for the nine months ended September 30, 2009 in line with the general increase in market prices of aluminum products as a result of the increase in demand for aluminum products as the PRC economy recovered. In addition, we started selling steam to Gaoxin Aluminum & Power and generated revenue of approximately RMB514.1 million for the nine months ended September 30, 2010, which also contributed to the increase in our revenue. Our Group determined our selling price of aluminum products based on the spot market price¹, which was mainly driven by the demand for and supply of the aluminum products in the PRC. For the nine months ended September 30, 2010, the spot market price for aluminum products increased due to the increase in demand for aluminum products as a result of the recovery in the PRC economy, which was also in line with the price trend of the spot market price for alumina during the same period.

¹ As disclosed under the sub-paragraph "Sales contract term" of the section headed "Business" in this prospectus, for our products sold in China other than Guangdong Province, the price is determined with reference to the mean price provided by the Yangtze River Non-ferrous Metals Spot Market, and for products sold in Guangdong Province, the price is based on the mean price provided by Nanchu Non-ferrous Metals Spot Market in Guangdong Province, while a premium or discount may be applied from time to time.

FINANCIAL INFORMATION

Cost of sales

Cost of sales increased by approximately 11.5% to approximately RMB6,503.7 million for the nine months ended September 30, 2010 from approximately RMB5,831.2 million for the nine months ended September 30, 2009, primarily due to an increase in the sales volume of our aluminum products, as partially offset by the decrease in the prices of alumina and electricity. Cost of sales increased by a smaller percentage than the increase in our sales volume of aluminum products primarily due to significant decreases in electricity cost per kWh and the unit cost of alumina, partially offset by an increase in the unit cost of carbon anodes. Our average electricity cost per ton of aluminum products sold decreased by 42.9% to approximately RMB3,178 for the nine months ended September 30, 2010 from approximately RMB5,561 for the nine months ended September 30, 2009 due to (i) a decrease in the price of electricity purchased from Gaoxin Aluminum & Power as the purchase price for the nine months ended September 30, 2009 also included the amortized construction cost for the power network connecting our facilities to Gaoxin Aluminum & Power's generators, which was fully amortized by the end of 2009; (ii) a decrease in the unit cost of the electricity generated by our thermal power station primarily attributable to an increase in its utilization rate; and (iii) an increase in the proportion of electricity generated by our thermal power station, the unit cost of which was significantly lower than the unit cost of electricity purchased from Gaoxin Aluminum & Power. Our average purchase price of alumina decreased to RMB1,590 per ton for the nine months ended September 30, 2010 as compared to RMB1,782 per ton for the nine months ended September 30, 2009.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased significantly to approximately RMB4,042.8 million for the nine months ended September 30, 2010 as compared to a gross profit of approximately RMB351.0 million for the nine months ended September 30, 2009. Such significant increase in our gross profit was primarily attributable to recovery of the global economy from the global financial crisis, which in turn caused increases in market demand for and market prices of aluminum products. Our gross profit margin increased to approximately 38.3% for the nine months ended September 30, 2010 from approximately 5.7% for the nine months ended September 30, 2009.

Other income and gain and loss

Other income and gain and loss increased by approximately 61.5% to approximately RMB153.1 million for the nine months ended September 30, 2010 from approximately RMB94.8 million for the nine months ended September 30, 2009, primarily due to (i) an increase in income from sales of slag of carbon anode blocks due to an increase in the amount of slag of carbon anode blocks generated as a result of our increased production output of aluminum products; and (ii) an increase in income from others, which includes mainly penalties paid by our suppliers and construction contractors for quality defects in raw materials and construction and penalties paid by our employees who violated our internal policies and requirements, and disposal of coal ash and coal cinder of our thermal power station.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 49.7% to approximately RMB16.0 million for the nine months ended September 30, 2010 from approximately RMB31.8 million for the nine months ended September 30, 2009. The decrease in distribution and selling expenses was mainly attributable to a decrease in our transportation cost to approximately RMB15.8 million for the nine months ended September 30, 2010 from approximately RMB31.3 million for the nine months ended September 30, 2009 as (i) we sold a substantially higher portion of molten aluminum alloy for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, which cost less than our other aluminum products in terms of transportation costs due to shorter delivery distance; and (ii) we sold fewer aluminum alloy ingots for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Our average transportation cost of aluminum products sold was approximately RMB58 per ton and RMB21 per ton for the nine months ended September 30, 2009 and 2010, respectively.

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Administrative expenses

Administrative expenses increased by approximately 20.9% to approximately RMB75.6 million for the nine months ended September 30, 2010 from approximately RMB62.5 million for the nine months ended September 30, 2009, mainly due to an increase in land-use tax and real property tax.

Finance costs

Finance costs increased by approximately 100.0% to approximately RMB130.8 million for the nine months ended September 30, 2010 from approximately RMB65.4 million for the nine months ended September 30, 2009. Finance costs were higher for the nine months ended September 30, 2010 due primarily to the new bank borrowings we raised in the nine months ended September 30, 2010.

Other expenses

We incurred other expenses of approximately RMB19.7 million for the nine months ended September 30, 2010 for professional services in connection with the Listing as compared for nil for the nine months ended September 30, 2009.

Income tax

Income tax expense increased significantly to approximately RMB988.4 million for the nine months ended September 30, 2010 from approximately RMB74.1 million for the nine months ended September 30, 2009 due mainly to our increased profit before taxation. The effective income tax rates applicable to us for the nine months ended September 30, 2009 and 2010 were 25.9% and 25.0%, respectively.

Profit for the period from continuing operations

As a result of (i) a significant increase in revenue mainly driven by the increase in our sales volume and average selling price underpinned by the recovery of the PRC economy, which boasted market demand; (ii) decrease in unit cost of sales of aluminum products as a result of significant decreases in the electricity cost per kWh and the unit cost of alumina, our profit for the period from continuing operations increased significantly to approximately RMB2,965.4 million for the nine months ended September 30, 2010 from approximately RMB212.0 million for the nine months ended September 30, 2009. Should there is any change in the factors mentioned above, our net profit may not grow at such rate or at all. See the risk factors headed “Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control.” and “We rely on Gaoxin Aluminum & Power for supply of alumina and electricity. If Gaoxin Aluminum & Power is unable or unwilling to supply alumina or electricity to us, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.”

Profit for the period from discontinued operations

Profit from discontinued operations amounted to approximately RMB31.5 million for the nine months ended September 30, 2010, as compared to a loss of approximately RMB28.7 million for the nine months ended September 30, 2009, due primarily to the following reasons:

- (i) Dyeing business. We had a gain of approximately RMB24.9 million from the disposal of the dyeing business for the nine months ended September 30, 2010, as compared to a loss of approximately RMB0.6 million for the nine months ended September 30, 2009.

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- (ii) Caustic soda manufacturing business. We had a gain of approximately RMB6.6 million from the disposal of the caustic soda manufacturing business for the nine months ended September 30, 2010, as compared to a loss of RMB15.1 million for the nine months ended September 30, 2009 as our caustic soda manufacturing business became operational in May 2009.
- (iii) Alumina agency business. Loss amounted to approximately RMB13.0 million for the nine months ended September 30, 2009. We discontinued the alumina agency business in the end of 2009.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue

Our revenue decreased by approximately 1.2% to approximately RMB8,668.4 million for 2009 from approximately RMB8,772.2 million for 2008, primarily due to a decrease in the average selling price of our aluminum products, which was partially offset by an increase in our sales volume of aluminum products. The average selling price of our aluminum products decreased by 17.5% to approximately RMB11,858 per ton for 2009 from approximately RMB14,379 per ton for 2008 due primarily to the global economic downturn and slowdown of the PRC economy that started in the second half of 2008 which negatively impacted market prices of aluminum products and in turn our selling prices. Our sales volume increased by 19.8% to approximately 731,043 tons for 2009 from approximately 610,057 tons for 2008 due primarily to the following factors: (i) increased demand for our aluminum products, particularly our molten aluminum alloy, by local customers in Zouping County driven by the continuing urbanization in China and the recovery of the PRC economy; and (ii) our increased output as a result of our increased production capacity.

Cost of sales

Cost of sales decreased by approximately 5.7% to approximately RMB7,769.1 million for 2009 from approximately RMB8,238.7 million for 2008. The decrease in our cost of sales was primarily due to a decrease in purchase of raw materials, as partially offset by an increase in electricity costs. Our purchase of raw materials decreased by approximately 25.2% to approximately RMB3,244.2 million for 2009 from approximately RMB4,338.8 million for 2008, primarily due to decreases in the prices of both alumina and carbon anodes, as partially offset by increases in the volume of alumina and carbon anodes we purchased. Our average purchase price of alumina decreased to RMB1,712 per ton for 2009 from RMB2,495 per ton for 2008 because Chuangye Group's alumina production cost decreased due to a decline in bauxite prices driven by the global economic downturn. The price of carbon anodes decreased significantly for 2009 from 2008 primarily due to the decline in the market prices of carbon anodes caused by the global economic downturn. Our electricity costs increased by approximately 14.5% to approximately RMB3,870.9 million for 2009 from approximately RMB3,381.8 million for 2008 primarily driven by our increased sales volume. Our average electricity cost per ton of aluminum products sold decreased slightly to approximately RMB5,295 for 2009 from approximately RMB5,543 for 2008.

Gross profit and gross profit margin

Our gross profit increased by approximately 68.6% to approximately RMB899.3 million for 2009 from approximately RMB533.5 million for 2008, primarily due to a decrease in our unit cost of sales. Our gross profit margin increased to approximately 10.4% for 2009 from approximately 6.1% for 2008.

Other income and gain and loss

Other income and gain and loss decreased by approximately 45.6% to approximately RMB97.2 million for 2009 from approximately RMB178.6 million for 2008, primarily due to a net loss on sales of materials for 2009 as compared to a net gain on sales of materials for 2008 and net foreign exchange losses for 2009 as compared to net foreign exchange gains for 2008. We incurred a net loss on sales of materials from our

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disposal of excess coal for 2009, because we sold such excess coal at then prevailing market price, which was lower than the purchase cost of such excess coal. Our foreign exchange losses for 2009 primarily resulted from the differences between the purchase prices of US dollars we purchased and the middle rates set by the People's Bank of China. We had foreign exchange gains from our US dollar denominated loans as the Renminbi appreciated against the US dollar for 2008.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 22.3% to approximately RMB41.0 million for 2009 from approximately RMB52.8 million for 2008. The decrease in distribution and selling expenses was mainly attributable to the decrease in our transportation cost to approximately RMB40.2 million for 2009 from approximately RMB52.2 million for 2008 due to less demand and decreases in fuel prices driven by the global economic downturn. Our average transportation cost of aluminum products sold was approximately RMB86 per ton and RMB55 per ton for 2008 and 2009, respectively. Our distribution and selling expenses as a percentage of revenue decreased to approximately 0.5% for 2009 from approximately 0.6% for 2008.

Administrative expenses

Administrative expenses increased by approximately 10.3% to approximately RMB92.3 million for 2009 from approximately RMB83.7 million for 2008, mainly due to an increase in staff salaries and benefits in line with the expansion of our operations. As a result, our administrative expenses as a percentage of revenue increased to approximately 1.1% for 2009 from approximately 1.0% for 2008.

Finance costs

Finance costs decreased by approximately 53.8% to approximately RMB89.2 million for 2009 from approximately RMB193.0 million for 2008. Finance costs were higher for 2008 due primarily to (i) a larger amount of discount interest paid by us in discounting bills receivable as a higher portion of our customers' payments were in the form of bills for 2008 than for 2009 due to tight credit in China in 2008 prior to the global economic downturn; (ii) our higher balances of bank borrowings for 2008 as compared to 2009; and (iii) the generally higher interest rates for 2008 as compared to 2009.

Income tax

Income tax expense increased by approximately 99.1% to approximately RMB196.9 million for 2009 from approximately RMB98.9 million for 2008 due mainly to our increased profit before taxation. The effective income tax rates applicable to us for 2008 and 2009 were 25.9% and 25.4%, respectively.

Profit for the year from continuing operations

As a result of the foregoing factors, our profit for the year from continuing operations increased by approximately 103.5% to approximately RMB577.1 million for 2009 from approximately RMB283.6 million for 2008.

Profit for the year from discontinued operations

Loss from discontinued operations amounted to approximately RMB9.4 million for 2009, as compared to profit of approximately RMB145.3 million for 2008, due primarily to the following reasons:

- (i) Dyeing business. Loss amounted to approximately RMB0.9 million for 2009, as compared to loss of approximately RMB0.3 million for 2008.
- (ii) Caustic soda manufacturing business. Our caustic soda manufacturing business was only operational in 2009 and incurred a loss of approximately RMB6.6 million for the year.

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- (iii) Alumina agency business. Loss amounted to approximately RMB1.9 million for 2009 as compared to profit of approximately RMB145.6 million for 2008, primarily because the management fee rate decreased to RMB100 per ton of alumina sold to third parties for 2009 from RMB200 per ton for 2008.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue

Our revenue increased by approximately 94.6% to approximately RMB8,772.2 million for 2008 from approximately RMB4,508.3 million for 2007, due primarily to an increase in our sales volume, as partially offset by a decrease in the average selling price of our aluminum products. Our sales volume of aluminum products increased by approximately 120.5% to approximately 610,057 tons for 2008 from approximately 276,712 tons for 2007, as our production capacity and output increased over these periods. The average selling price of our aluminum products decreased by approximately 11.7% to approximately RMB14,379 per ton for 2008 from approximately RMB16,292 per ton for 2007, due primarily to the global economic downturn and the slowdown of the PRC economy in the second half of 2008 which negatively impacted market prices of aluminum and in turn our selling prices.

Cost of sales

Cost of sales increased by approximately 164.2% to approximately RMB8,238.7 million for 2008 from approximately RMB3,117.9 million for 2007, primarily due to increases in our sales volume, electricity costs and price of raw materials. Our electricity costs increased by approximately 191.7% to approximately RMB3,381.8 million for 2008 from approximately RMB1,159.4 million for 2007, primarily due to an increase in electricity cost per kWh and an increase in the total volume of electricity consumption, which was partially offset by a decrease in the average electricity consumption per ton of aluminum produced. Our average electricity cost per ton of aluminum products increased to approximately RMB5,543 for 2008 from approximately RMB4,190 for 2007 primarily due to (i) the higher prices of electricity purchased from Chuangye Group and Gaoxin Aluminum & Power, and (ii) an increase in our average cost to generate electricity driven by higher coal prices for 2008 prior to the global economic downturn. Our purchase of raw materials increased by approximately 99.6% to approximately RMB4,338.8 million for 2008 from approximately RMB2,173.6 million for 2007, primarily due to an increase in the price of alumina from RMB2,379 per ton for 2007 to RMB2,495 per ton for 2008 and carbon anodes and an increase in the total volume of alumina and carbon anodes we purchased. Our average purchase price of alumina increased for 2008 as Chuangye Group's production cost increased. The price of carbon anodes increased for 2008 primarily due to higher market prices prior to the global economic downturn.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by approximately 61.6% to approximately RMB533.5 million for 2008 from approximately RMB1,390.4 million for 2007. Our gross profit margin decreased to approximately 6.1% in 2008 from approximately 30.8% for 2007.

Other income and gain and loss

Other income and gain and loss increased by approximately 137.2% to approximately RMB178.6 million for 2008 from approximately RMB75.3 million for 2007, primarily due to increases in net gain on sales of scrap materials, net gain on sales of materials and foreign exchange gains due to the Renminbi's appreciation against the US dollar for 2007 and 2008 and our increased US dollar denominated loans for 2008 as compared with 2007.

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Distribution and selling expenses

Our distribution and selling expenses increased by approximately 384.4% to approximately RMB52.8 million for 2008 from approximately RMB10.9 million for 2007, primarily due to an increase in our transportation costs driven by increases in both our sales volume and the average transportation cost per ton. Our transportation cost increased to approximately RMB52.2 million for 2008 from approximately RMB10.5 million for 2007, primarily due to higher energy prices during 2008. Our average transportation cost was approximately RMB38 per ton and RMB86 per ton for 2007 and 2008, respectively. Distribution and selling expenses as a percentage of revenue increased to approximately 0.6% for 2008 from approximately 0.3% for 2007.

Administrative expenses

Our administrative expenses increased by approximately 98.8% to approximately RMB83.7 million for 2008 from approximately RMB42.1 million for 2007. This increase in administrative expenses was mainly due to increases in rental expenses, office expenses and staff salaries and benefits primarily attributable to the expansion of our operations. Administrative expenses as a percentage of revenue increased to 1.0% for 2008 from 0.9% for 2007.

Finance costs

Finance costs increased by approximately 244.6% to approximately RMB193.0 million for 2008 from approximately RMB56.0 million for 2007. The increase in finance costs was mainly due to our increased bank borrowings and a larger amount of discount interest paid by us in discounting bills receivable. Our bills receivables increased for 2008 due primarily to our increased sales. In addition, a higher portion of our customers' payments were in the form of bills for 2008 than for 2007 due to the government's tightening credit policy credit in China in 2008. Moreover, the discount rates were higher for 2008 than 2007, which also attributed to our higher finance costs for 2008.

Income tax

Income tax expense decreased by approximately 78.2% to approximately RMB98.9 million for 2008 from approximately RMB452.9 million for 2007, primarily due to the decrease in our profit before taxation and the New EIT Law which took effect on January 1, 2008 and reduced our effective tax rate for 2008. The effective income tax rates applicable to us for 2007 and 2008 were approximately 33.4% and 25.9%, respectively, in line with the PRC enterprise income tax rates applicable to our subsidiaries during those periods.

Profit for the year from continuing operations

As a result of the foregoing factors, our profit for the year from continuing operations decreased by approximately 68.6% to approximately RMB283.6 million for 2008 from approximately RMB903.9 million for 2007.

Profit for the year from discontinued operations

Profit for the year from discontinued operations decreased by approximately 65.8% to approximately RMB145.3 million for 2008, as compared to approximately RMB425.4 million for 2007, primarily due to our decreased management fee income.

- (i) Dyeing business. Loss was approximately RMB0.3 million for 2008, as compared to loss of approximately RMB33.4 million for 2007, as we effectively ceased production in January 2008.
- (ii) Alumina agency business. Management fees decreased by approximately 59.7% to approximately RMB362.9 million for 2008 from approximately RMB900.3 million for 2007, primarily because the management fee rate decreased to RMB200 per ton of alumina sold to third parties for 2008 from approximately RMB400 per ton for 2007.

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INVENTORIES, TRADE RECEIVABLES AND TRADE PAYABLES

Inventories

The following table sets forth a summary of our inventory balances as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	September 30,
	RMB'000	RMB'000	RMB'000	2010 RMB'000
Raw materials	243,690	213,842	142,290	303,422
Work in process	411,122	387,153	396,032	560,418
Finished goods	105,020	142,993	10,038	469
	<u>759,832</u>	<u>743,988</u>	<u>548,360</u>	<u>864,309</u>

Our inventories increased by approximately 57.6% to approximately RMB864.3 million as of September 30, 2010 from approximately RMB548.4 million as of December 31, 2009 primarily due to increases in work in process and raw materials as a result of our increased production capacity and output, in particular our production of molten aluminum alloy.

Our inventories decreased by approximately 26.3% to approximately RMB548.4 million as of December 31, 2009 from approximately RMB744.0 million as of December 31, 2008, primarily due to decreases in raw materials and finished goods as a result of decreases in raw material prices and strong demand from our customers as the PRC economy began to recover in 2009.

Our inventories decreased by approximately 2.1% to approximately RMB744.0 million as of December 31, 2008 from approximately RMB759.8 million as of December 31, 2007, primarily because we increased our inventories of raw materials in 2007 in preparation for our expansion of production in 2008.

The following tables set forth the ageing analysis of our inventories as of the dates indicated:

	As of December 31, 2007						Total
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Raw materials	241,151	338	1,411	776	14	-	243,690
Work in process	411,122	-	-	-	-	-	411,122
Finished goods	27,344	8,981	337	66,547	1,811	-	105,020
Total	<u>679,617</u>	<u>9,319</u>	<u>1,748</u>	<u>67,323</u>	<u>1,825</u>	<u>-</u>	<u>759,832</u>

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As of December 31, 2008							
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	203,378	5,084	420	1,470	2,464	1,026	213,842
Work in process	387,153	-	-	-	-	-	387,153
Finished goods	32,506	12	-	-	47,808	62,667	142,993
Total	<u>623,037</u>	<u>5,096</u>	<u>420</u>	<u>1,470</u>	<u>50,272</u>	<u>63,693</u>	<u>743,988</u>

As of December 31, 2009							
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	134,911	201	3	6	4,163	3,006	142,290
Work in process	396,032	-	-	-	-	-	396,032
Finished goods	8,227	-	-	-	-	1,811	10,038
Total	<u>539,170</u>	<u>201</u>	<u>3</u>	<u>6</u>	<u>4,163</u>	<u>4,817</u>	<u>548,360</u>

As of September 30, 2010							
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	287,021	10,858	452	503	1,273	3,315	303,422
Work in process	560,418	-	-	-	-	-	560,418
Finished goods	469	-	-	-	-	-	469
Total	<u>847,908</u>	<u>10,858</u>	<u>452</u>	<u>503</u>	<u>1,273</u>	<u>3,315</u>	<u>864,309</u>

Our long unused inventories comprise primarily magnesium fluoride, calcium fluoride, cryolite, scorched particles and aluminum fluoride, as these materials are primarily used when aluminum smelting furnaces are started up or during an overhaul of a production line.

Trade receivables

We require our customers to make prepayment in full before delivery. In the event that the total price of goods actually delivered exceeds a customer's prepayment, we generally allow a credit period of up to 90 days. See "Business – Sales and Marketing – Sales contract terms." As a result of this policy, we did not have significant amount of account receivables during the Track Record Period. Our trade receivables decreased significantly as of September 30, 2010 as we further improved our collection of outstanding balances from customers.

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The following table sets forth an ageing analysis (based on dates of invoices) of our trade receivables (net of allowance for doubtful debts) as of the dates indicated (our trade receivables include the trade receivables recorded in assets held for sale and assets attributable to the alumina production business of Chuangye Group, while the analysis below does not include such information):

	As of December 31,						As of September 30,	
	2007		2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
0-90 days	102,403	99.8	212,494	99.2	180,078	99.5	6,507	100.0
91-180 days	185	0.2	-	0.0	920	0.5	-	-
1-2 years	-	0.0	1,700	0.8	-	0.0	-	-
Total	<u>102,588</u>	<u>100.0</u>	<u>214,194</u>	<u>100.0</u>	<u>180,998</u>	<u>100.0</u>	<u>6,507</u>	<u>100.0</u>

We did not have trade receivables as of September 30, 2010 that were past due.

Trade payables

Our trade payables decreased by approximately 5.9% to approximately RMB371.2 million as of September 30, 2010 from approximately RMB394.3 million as of December 31, 2009, primarily due to our decreased use of endorsed bank bills with recourse to settle our purchase of raw materials.

Our trade payables decreased by approximately 60.3% to approximately RMB394.3 million as of December 31, 2009 from approximately RMB992.7 million as of December 31, 2008, primarily due to our payments of certain trade payables related to the price of equipment for our production lines as they became due in 2009.

Our trade payables increased by approximately 38.9% to approximately RMB992.7 million as of December 31, 2008 from approximately RMB714.6 million as of December 31, 2007, primarily due to increased use of endorsed bank bills with recourse to settle our purchase of raw materials.

The following table sets forth an ageing analysis of the trade payables of our continuing operations as of the dates indicated:

	As of December 31,						As of September 30,	
	2007		2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
0-180 days	685,004	95.8	917,623	92.4	340,606	86.4	312,036	84.1
180-365 days	26,856	3.8	52,290	5.3	11,782	3.0	27,210	7.3
1-2 years	1,970	0.3	21,979	2.2	36,746	9.3	18,172	4.9
More than 2 years	793	0.1	842	0.1	5,212	1.3	13,787	3.7
Total	<u>714,623</u>	<u>100.0</u>	<u>992,734</u>	<u>100.0</u>	<u>394,346</u>	<u>100.0</u>	<u>371,205</u>	<u>100.0</u>

Our trade payables that were due between one and two years increased significantly as of December 31, 2008, primarily due to our purchases of certain equipment for our thermal power station in 2006 and our purchases of certain equipment for our production lines in 2007. We made progressive payments for such equipment based on various conditions, such as completion of installation and commissioning. As a result, part of the purchase prices for such equipment was due between one and two years as of December 31,

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2008. Our trade payables that were due between one and two years further increased as of December 31, 2009, primarily due to our purchases of equipment used in the construction of phase two of our thermal power station in 2008, payment for which was not due until it was commissioned in 2010. Long outstanding trade payables of approximately RMB13.8 million that were due in more than two years as of September 30, 2010 were primarily related to certain equipment used in our thermal power station, payments of which are payable only after our thermal power station has been operational for certain periods of time for quality assurance purposes.

Turnover days

The following table sets forth the turnover days of our trade receivables, inventories and trade payables, exclusive of those held for sale, for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	Turnover days of inventories ⁽¹⁾	64	33	30
Turnover days of trade receivables ⁽²⁾ . . .	6	2	2	1
Turnover days of trade payables ⁽³⁾	57	38	33	16

- (1) Turnover days of inventories for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplied by 365 days for a year or 273 days for the nine months ended September 30, 2010.
- (2) Turnover days of trade receivables for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables by revenue for the relevant period and then multiplied by 365 days for a year or 273 days for the nine months ended September 30, 2010.
- (3) Turnover days of trade payables for a certain period is derived by dividing the arithmetic mean of opening and closing balances of trade payables, by cost of sales for the relevant period and then multiplied by 365 days for a year or 273 days for the nine months ended September 30, 2010.

Our turnover days of inventories decreased to 33 days in 2008 from 64 days in 2007 primarily because we maintained additional raw material inventories in 2007 in preparation for our production expansion and strengthened our inventory management. Our turnover days of inventories in 2009 decreased further to 30 days from 33 days in 2008 primarily due to the decline in raw material prices after the global economic downturn, which drove down the opening and closing balances of inventories in 2009, and strong demand from customers. Our turnover days of inventories were 30 days in the nine months ended September 30, 2010.

Our turnover days of trade receivables are generally low because we require prepayment before delivery. We only grant our customers a credit period of no more than 90 days if actual delivery exceeds their prepayment amounts.

Our turnover days of trade payables decreased to 38 days in 2008 from 57 days in 2007, primarily because our cost of sales increased significantly in 2008 as our production expanded and our use of endorsed bank bills with recourse and our payable to suppliers of our production lines did not increase significantly. Our turnover days of trade payables decreased further to 33 days in 2009 and further to 16 days for the nine months ended September 30, 2010 due primarily to the significantly lower amount of trade payables as of December 31, 2009 and September 30, 2010 as we settled certain trade payables related to the price of equipment for our production lines in 2009.

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Subsequent utilization of inventories and subsequent settlement of trade receivables and trade payables

The following table sets for information regarding the subsequent utilization of inventories and subsequent settlement of trade receivables and trade payables:

	As of September 30, 2010	Subsequent utilization/ settlement by January 31, 2011
	(RMB'000)	
Inventories	864,309	846,245
Trade receivables	6,507	6,507
Trade payables	371,205	316,862
Bills receivable	907,534	479,409

As the endorsed bank bills we received usually have a maturity term of six months, as of January 31, 2011, approximately RMB479.4 million of the endorsed bank bills had been settled, which were outstanding as of September 30, 2010. The remaining outstanding amount as of September 30, 2010 will be settled gradually by the end of March 2011.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We fund our operations primarily with cash flows from operations and short-term and long-term borrowings. Our primary uses of funds have been capital expenditures, working capital and repayment of short-term and long-term borrowings. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity.

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The following table sets forth certain data regarding our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of September 30,	As of January 31,
	2007	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT ASSETS					
Inventories	759,832	743,988	548,360	864,309	1,226,210
Trade receivables	83,910	34,555	44,416	6,507	2,462
Bills receivable	1,150,562	1,645,045	763,370	907,534	1,032,162
Prepayments and other receivables	27,622	122,826	15,377	739,005	208,513
Amounts due from related parties	230,011	160,067	153,756	–	–
Prepaid lease payments – current portion	229	229	–	1,813	3,015
Tax recoverable	–	74,726	97,790	–	–
Restricted bank deposits	193,311	195,615	760,646	–	82,650
Bank balances and cash	128,335	117,949	443,133	1,279,320	3,201,841
	<u>2,573,812</u>	<u>3,095,000</u>	<u>2,826,848</u>	<u>3,798,488</u>	<u>5,756,853</u>
Financial assets contracted for Alumina Production Business	1,377,480	1,237,382	1,029,762	–	–
Assets classified as held for sale	–	–	1,613,854	–	–
	<u>3,951,292</u>	<u>4,332,382</u>	<u>5,470,464</u>	<u>3,798,488</u>	<u>5,756,853</u>
CURRENT LIABILITIES					
Trade payables	714,623	992,734	394,346	371,205	1,126,897
Bills payable	20,000	100,000	310,000	–	–
Other payables	643,163	957,713	848,059	626,583	707,918
Amounts due to related parties	2,857,034	3,471,942	3,556,479	–	–
Amount due to a subsidiary	–	–	–	–	–
Income tax payable	36,609	–	–	545,619	216,322
Bank borrowings – due within one year	567,155	869,970	929,173	300,000	472,480
	<u>4,838,584</u>	<u>6,392,359</u>	<u>6,038,057</u>	<u>1,843,407</u>	<u>2,523,617</u>
Financial liabilities contracted for Alumina Production Business	2,085,006	1,488,847	1,105,843	–	–
Liabilities associated with assets classified as held for sale	–	–	980,551	–	–
	<u>6,923,590</u>	<u>7,881,206</u>	<u>8,124,451</u>	<u>1,843,407</u>	<u>2,523,617</u>
NET CURRENT (LIABILITIES) ASSETS	<u>(2,972,298)</u>	<u>(3,548,824)</u>	<u>(2,653,987)</u>	<u>1,955,081</u>	<u>3,233,236</u>

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Net current assets

As of September 30, 2010, our net current assets were approximately RMB1,955.1 million, consisting of current assets of approximately RMB3,798.5 million and current liabilities of approximately RMB1,843.4 million. Our current assets mainly included bills receivable of approximately RMB907.5 million, inventories of approximately RMB864.3 million and bank balances and cash of approximately RMB1,279.3 million. Our current liabilities mainly included bank borrowings due within one year of approximately RMB300.0 million, other payables of approximately RMB626.6 million and trade payables of approximately RMB371.2 million. For more information about financial assets and liabilities attributable to the alumina production business, see “– Certain Balance Sheet Items – Financial assets and liabilities contracted for alumina production business.” As of January 31, 2011, which is the latest practicable date for the purpose of our indebtedness statement, our net current assets amounted to RMB3,233.2 million.

We had net current liabilities of approximately RMB2,972.3 million, RMB3,548.8 million and RMB2,654.0 million as of December 31, 2007, 2008 and 2009, primarily because we took advantage of the financing from amounts due to related parties, the suppliers’ credit period to partly finance our operation and utilising short-term bank borrowings for expanding our business.

Cash flows

We generally finance our operations through a combination of shareholders’ equity, internally generated cash flows and bank borrowings. As of September 30, 2010, we had cash and cash equivalents of RMB1,279.3 million. The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB’000)			
Net cash generated from operating activities	1,143,360	1,116,715	1,923,575	2,499,483
Net cash used in investing activities . . .	(3,322,554)	(1,798,773)	(1,472,690)	(1,297,563)
Net cash from (used in) financing activities	2,269,537	671,672	(39,889)	(451,545)
Net (decrease)/increase in cash and cash equivalents	90,343	(10,386)	410,996	750,375
Cash and cash equivalents at beginning of year/period.	37,992	128,335	117,949	528,945
Cash and cash equivalents at end of year/period.	<u>128,335</u>	<u>117,949</u>	<u>528,945</u>	<u>1,279,320</u>

Net cash generated from operating activities

For the nine months ended September 30, 2010, we generated net cash from our operating activities of approximately RMB2,499.5 million, reflecting net profit for the period of approximately RMB2,997.0 million and an increase in income tax expense of approximately RMB988.4 million, as partially offset by a decrease in payables, deposits received and accrued charges of approximately RMB1,387.9 million and an increase in inventories of approximately RMB317.9 million.

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In 2009, we generated net cash from operating activities of approximately RMB1,923.6 million, reflecting net profit for the year of approximately RMB567.6 million, a decrease in receivables, deposits and prepayments of approximately RMB1,113.6 million and a decrease in inventories of RMB128.2 million, as partially offset by a decrease in payables, deposits received and accrued charges of approximately RMB518.4 million.

In 2008, we generated net cash from operating activities of approximately RMB1,116.7 million, reflecting net profit for the year of approximately RMB428.9 million, an increase in payables, deposits received and accrued charges of approximately RMB565.0 million, as partially offset by an increase in receivables, deposits and prepayments of approximately RMB385.8 million and an increase in inventories of approximately RMB74.7 million.

In 2007, we generated net cash from operating activities of approximately RMB1,143.4 million, reflecting net profit for the year of approximately RMB1,329.3 million, an increase in payables, deposits received and accrued charges of approximately RMB1,818.4 million, partially offset by an increase in receivables, deposits and prepayments of approximately RMB1,948.9 million, an increase in inventories of approximately RMB427.2 million.

Net cash used in investing activities

The principal items affecting net cash used in investing activities during the Track Record Period were our capital expenditures for acquisition of property, plant and equipment.

Net cash used in investing activities was approximately RMB1,297.6 million for the nine months ended September 30, 2010. The amount reflected primarily cash used for purchase of property, plant and equipment of approximately RMB1,866.3 million, deposit for acquisition of property, plant and equipment of approximately RMB485.8 million, acquisition of Zhengtong of approximately RMB176.0 million, as partially offset by an increase in restricted bank deposits of approximately RMB760.6 million and cash received from disposal of Marine Chemical of approximately RMB514.2 million.

Net cash used in investing activities was approximately RMB1,472.7 million in 2009. The amount reflected primarily cash used for purchase of property, plant and equipment of approximately RMB318.2 million, deposits for purchase of property, plant and equipment of approximately RMB532.0 million and an increase in restricted bank deposits for issuances of letters of credit and bank bills of RMB592.5 million.

Net cash used in investing activities was approximately RMB1,798.8 million in 2008. The amount reflected primarily cash used for purchase of property, plant and equipment for our aluminum production facilities and power station of approximately RMB1,224.1 million and deposits for purchase of property, plant and equipment of approximately RMB581.0 million.

Net cash used in investing activities was approximately RMB3,322.6 million in 2007. The amount reflected primarily cash used for purchase of property, plant and equipment for our aluminum production facilities and power station of approximately RMB2,185.6 million, and deposits for acquisition of property, plant and equipment for our aluminum production facilities and power station of approximately RMB993.8 million.

Net cash from used in financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of loans and borrowings.

Net cash used in financing activities for the nine months ended September 30, 2010 was approximately RMB451.5 million. The amount reflected primarily repayments to related parties of approximately RMB7,965.7 million and repayment of bank borrowings of approximately RMB1,093.5 million, as partially offset by advances from related parties of approximately RMB4,470.8 million and new bank borrows of approximately RMB4,261.0 million.

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Net cash used in financing activities in 2009 was approximately RMB39.9 million. The amount reflected primarily repayments to related parties of approximately RMB8,957.5 million, repayment of bank borrowings of approximately RMB1,084.4 million and interest paid of approximately RMB126.6 million, partially offset by advances from related parties of approximately RMB8,872.1 million and new bank borrowings of approximately RMB1,256.5 million.

Net cash from financing activities in 2008 was approximately RMB671.7 million. The amount reflected primarily advances from related parties of approximately RMB5,829.1 million and new bank borrowings of approximately RMB1,646.3 million, partially offset by repayments to related parties of approximately RMB5,680.1 million, repayment of bank borrowings of approximately RMB901.1 million and interest paid of approximately RMB222.5 million.

Net cash from financing activities in 2007 was approximately RMB2,269.5 million. The amount reflected primarily advances from related parties of approximately RMB7,235.3 million and new bank borrowings of approximately RMB1,309.8 million, partially offset by repayments to related parties of approximately RMB5,667.5 million, repayment of bank borrowings of approximately RMB520.7 million and interest paid of approximately RMB87.4 million.

CERTAIN BALANCE SHEET ITEMS

Intangible assets

The intangible assets represented the value of the Agency Agreement in connection with the alumina agency business, entered into by Chuangye Group and Aluminum & Power, which was recognized by us when we obtained control in Aluminum & Power. The intangible assets consist of two components, (i) those charged for our continuing operations which were related to cost savings in our aluminum production due to our procurement of alumina at cost from Chuangye Group under the Agency Agreement and (ii) those charged for our discontinued operations which were related to our Group's right to receive management fees under the Agency Agreement, and both components are amortized on a straight-line basis over their estimated useful lives of 3.6 years.

	RMB'000
COST	
At January 1, 2007, December 31, 2007, 2008 and 2009 and September 30, 2010 . . .	443,000
AMORTIZATION	
At January 1, 2007	72,116
Charge for the year	123,628
At December 31, 2007	195,744
Charge for the year	123,628
At December 31, 2008	319,372
Charge for the year	123,628
At December 31, 2009 and September 30, 2010	443,000
CARRYING VALUES	
At December 31, 2007	247,256
At December 31, 2008	123,628
At December 31, 2009 and September 30, 2010	-

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The intangible assets charged for our continuing operations were approximately RMB11.7 million, RMB11.7 million and RMB11.7 million for 2007, 2008 and 2009, respectively, which were related to cost savings in our aluminum production due to our procurement of alumina at cost from Chuangye Group under the Agency Agreement representing the difference between the market price and the purchase price of alumina supplied by Chuangye Group at cost. The intangible assets charged for our discontinued operations were approximately RMB111.9 million, RMB111.9 million and RMB111.9 million for the same periods, which were related to our Group's right to receive management fees under the Agency Agreement.

Bills receivable

Our bills receivable increased by approximately 18.9% to approximately RMB907.5 million as of September 30, 2010 from approximately RMB763.4 million as of December 31, 2009, primarily due to an increase in our sales of aluminum products for the nine months ended September 30, 2010.

Our bills receivable decreased by approximately 53.6% to RMB763.4 million as of December 31, 2009 from approximately RMB1,645.0 million as of December 31, 2008, primarily because we reduced the amounts of bills we would accept from our customers in 2009 as a result of the recovery of the aluminum market and easier credit from banks in China.

Our bills receivable increased by approximately 43.0% to approximately RMB1,645.0 million as of December 31, 2008 from approximately RMB1,150.6 million as of December 31, 2007, primarily because we increased the amounts of bills we would accept from our customers due to tight credit from banks in China in 2008 prior to the global economic downturn.

Financial assets and liabilities contracted for alumina production business

Pursuant to the Agency Agreement between Chuangye Group and Aluminum & Power dated May 25, 2006, Aluminum & Power agreed to operate the alumina business owned by Chuangye Group on behalf of Chuangye Group for the period from May 26, 2006 to December 31, 2009. See "Business – Discontinued Operations – Alumina Agency Business."

The assets and liabilities of the alumina production business operated by us on behalf of Chuangye Group have not been recorded in our consolidated financial statements except for certain financial instruments contracted by us as an agent on behalf of Chuangye Group as a result of the alumina agency business, which are included in our consolidated financial statements. During the Track Record Period, Aluminum & Power recorded on its books and record, as an agent, the transactions of the alumina production business other than those relating to property, plant and equipment which were purchased, recorded and maintained by Chuangye Group. In accordance with IAS 39(14), an entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. Our Directors are of the view that the sales contract and procurement contracts related to the alumina production business signed by Aluminum & Power on behalf of Chuangye Group satisfies the requirements under IAS 39(14) and accordingly, the financial assets and liabilities arising from such arrangement were recognized in our consolidated statement of financial position. Deloitte Touche Tohmatsu, reporting accountants of our Group, concurs with the view of our Directors. To the extent that there were net financial assets or liabilities as of December 31, 2007, 2008 and 2009, corresponding amounts due to or from Chuangye Group, respectively, were booked in our consolidated statements of financial position. Financial assets and liabilities contracted by us on behalf of Chuangye Group had been fully settled as of September 30, 2010.

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The financial instruments contracted for the alumina production business of Chuangye Group are as follows:

	As of December 31,			As of
	2007	2008	2009	September 30,
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial assets				
Trade receivables	18,678	179,639	128,549	–
Bills receivable	1,142,051	826,515	678,259	–
Other receivables	–	–	1,173	–
Trade receivables due from related parties	216,751	231,228	221,781	–
	<u>1,377,480</u>	<u>1,237,382</u>	<u>1,029,762</u>	<u>–</u>

	As of December 31,			As of
	2007	2008	2009	September 30,
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial liabilities				
Trade payables	886,212	666,422	312,439	–
Bills payable	80,000	200,000	340,000	–
Other payables	32,898	25,069	1,743	–
Trade payables due to related parties	1,083,896	562,506	402,661	–
Bank borrowings	2,000	34,850	49,000	–
	<u>2,085,006</u>	<u>1,488,847</u>	<u>1,105,843</u>	<u>–</u>

Amounts due from/to related parties

As of December 31, 2007, 2008 and 2009 and September 30, 2010, we had amounts due from related parties totaling approximately RMB230.0 million, approximately RMB160.1 million, approximately RMB270.0 million (inclusive of assets held for sale) and nil, respectively, and amounts due to related parties totaling approximately RMB2,857.0 million, approximately RMB3,471.9 million, approximately RMB3,646.8 million (inclusive of liabilities associated with assets held for sale) and nil as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively.

Amounts due from/to related parties represented primarily advances provided to or obtained from related parties. All amounts due from related parties were denominated in RMB, unsecured, interest free and repayable on demand. All amounts due to related parties are unsecured, non-interest bearing and payable on demand except for the amount due to Chuangye Group of approximately RMB354.6 million, RMB946.5 million and RMB393.2 million as of December 31, 2007, 2008 and 2009, which were attributable to our payments to Chuangye Group with endorsed bank bills with recourse and carried interest at prevailing market rates for discounted bills banking facilities in the PRC. Amounts due to related parties increased as of December 31, 2007, 2008 and 2009 primarily due to the advances that Chuangye Group provided to us in support of our business expansion. Amounts due from/to related parties also represented balances granted to/by related parties involving trading activities and transactions. Our most significant trading activities and transactions with related parties in terms of transaction amount

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during the Track Record Period involved Chuangye Group and Aluminum Technology. Our transactions with Chuangye Group included primarily our purchases of alumina, electricity and coal from Chuangye Group and our operation of Chuangye Group's alumina business. Our transactions with Aluminum Technology included primarily our purchases of carbon anodes, production equipment and molten aluminum from Aluminum Technology and our sales of fluorides, spare parts and carbon anode scrap. For further details regarding related parties transactions, see Note 36 of the consolidated financial information set out in the Accountants' Report included in Appendix I to this prospectus. We had settled our net amounts due to related parties as of September 30, 2010.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that such amounts due to and due from related parties are not in violation of any PRC laws or regulations, including the General Principles of Loans (貸款通則). Our PRC legal advisors, Zong Heng Law Firm, have further advised us that the General Principles of Loans is only applicable to money borrowings for interest with definite terms, and such payables and receivables between us and our related parties were not money borrowings for interest and are not prohibited by or in violation of the General Principles of Loans.

Prepayments and other receivables

	At December 31,			At
				September 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	14,957	108,693	5,235	668,845
Value added tax receivables	–	–	–	65,664
Other receivables	12,665	14,133	10,142	4,496
	<u>27,622</u>	<u>122,826</u>	<u>15,377</u>	<u>739,005</u>

Prepayments and other receivables primarily comprise prepayments to suppliers, value added tax receivables and other receivables. Our prepayments and other receivables increased from RMB15.4 million as of December 31, 2009 to RMB739.0 million as of September 30, 2010, primarily due to the significant increase in prepayments to suppliers. The prepayments to suppliers amounted to RMB668.8 million as of September 30, 2010, comprising our continuing deposit of RMB400 million with Gaoxin Aluminum & Power pursuant to the alumina supply agreement between us and Gaoxin Aluminum & Power, the prepayments amounted to approximately RMB222.7 million to Gaoxin Aluminum & Power for alumina and electricity and the prepayments amounted to approximately RMB46.1 million to other suppliers. We are required to make full payments before we pick up alumina or receive electricity from Gaoxin Aluminum & Power. We usually make prepayments in several instalments to Gaoxin Aluminum & Power every month and Gaoxin Aluminum & Power settles the purchase price with us by issuing invoices to us at the end of every month based on our actual purchase amount. The amount of each such prepayment is determined based on the estimated amount of alumina and electricity to be consumed during the period covered by such prepayment. As our Binzhou Manufacturing Base Phase I started its trial production in late September 2010, we made extra prepayments to Gaoxin Aluminum & Power in September 2010 to secure additional supply of alumina and electricity in anticipation of our increased demand for alumina and electricity. As our Binzhou Manufacturing Base Phase I started its trial production only in late September 2010 and consumed a much smaller amount of alumina and electricity for September 2010 than the relevant prepayments, we had a significant increase in the balance of prepayments to suppliers as of September 30, 2010. See "Business – Procurement – Raw materials – Procurement of alumina." The value added tax receivables as of September 30, 2010 were attributable to value added tax paid by Zhengtong for its equipment and materials. Pursuant to PRC tax law, Zhengtong may offset such value added tax against future value added tax it is required to pay on its sales after it becomes operational.

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On June 30, 2010, Aluminum & Power, Chuangye Group and Gaoxin Aluminum & Power entered into a three-party agreement, pursuant to the terms of which Aluminum & Power transferred certain trade payables due to third parties and amounts due from Chuangye Group to Gaoxin Aluminum & Power. The trade payables were due to third parties, who are suppliers of bauxite, with an total amount of approximately RMB 57.8 million, and the amount due from Chuangye Group consisted of prepayments of approximately RMB116.1 million to suppliers of bauxite, which was accounted by Aluminum & Power as an amount due from Chuangye Group pursuant to the arrangements in relation to the alumina agency business. As a result, Gaoxin Aluminum & Power received a net amount of approximately RMB58.3 million as our deposit for alumina purchase. Aluminum & Power obtained the written approvals from the relevant creditors for the above transfer dated as of June 30, 2010. Since such trade payables and prepayments were related to the alumina agency business and the relevant alumina production business was acquired by Gaoxin Aluminum & Power, it is to the parties' benefit to enter into such three-party arrangement. Such arrangement enables each of Chuangye Group and our Group to reduce its own finance cost compared to cash settlement. In addition, since the RMB116.1 million prepayment was transferred to Gaoxin Aluminum & Power, it was able to receive bauxite from these suppliers without any cash settlement, which also reduced Gaoxin Aluminum & Power's finance cost.

Restricted bank deposits

Our restricted bank deposits was nil as of September 30, 2010 compared with approximately RMB760.6 million as of December 31, 2009, primarily because a significant portion of the letters of credit issued in connection with the alumina agency business matured in the period. In addition, a decrease in our bills payable in the nine months ended September 30, 2010 further contributed to the decrease in our restricted bank deposits.

Our restricted bank deposits increased by approximately 288.9% to approximately RMB760.6 million as of December 31, 2009 from approximately RMB195.6 million as of December 31, 2008, primarily in connection with our issuances of letters of credit and bank bills.

Our restricted bank deposits amounted to approximately RMB195.6 million as of December 31, 2008, remaining relatively stable from approximately RMB193.3 million as of December 31, 2007.

Other payables

	As of December 31,			As of
				September 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other deposits, payables and accruals . .	181,506	225,130	134,848	117,955
Advance from customers	140,726	475,107	322,094	292,661
Accrued payroll and welfare	32,295	39,482	18,821	24,214
Other tax payable	288,636	217,994	372,296	191,753
	<u>643,163</u>	<u>957,713</u>	<u>848,059</u>	<u>626,583</u>

Other tax payable primarily includes VAT and business tax. We had other tax payable of approximately RMB191.8 million as of September 30, 2010, which was fully paid in December 2010.

Our other payables decreased by approximately 26.1% to approximately RMB626.6 million as of September 30, 2010 from approximately RMB848.1 million as of December 31, 2009 primarily due to a decrease in advance from customers and a decrease in our other tax payables.

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Our other payables decreased by approximately 11.4% to approximately RMB848.1 million as of December 31, 2009 from approximately RMB957.7 million as of December 31, 2008, primarily due to a decrease in advance from customers as a result of the decrease in aluminum product prices.

Our other payables increased by approximately 48.9% to approximately RMB957.7 million as of December 31, 2008 from approximately RMB643.2 million as of December 31, 2007, primarily due to an increase in advance from customers resulting from increase in sales.

Income tax payable

We had income tax payable of approximately RMB36.6 million, nil, nil and RMB545.6 million as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively. Aluminum & Power generally pays income tax monthly shortly after the end of each month, and Shandong Hongqiao usually pays income tax quarterly shortly after the end of each quarter. As a result, we may have income tax payable at the end of a period to the extent we owe tax in the period. Our income tax payable as of December 31, 2007 and September 30, 2010 were primarily due to this reason. In addition, the income tax payable is calculated based on an estimated profit agreed by the tax authority and us. During the years of 2008 and 2009, we overestimated our net profit before taxation and paid amounts larger than our actual income tax liabilities. As a result we did not have any income tax payable as of December 31, 2008 and 2009. During the nine months ended September 30, 2010, because our profit before taxation increased significantly to approximately RMB3,953.8 million from approximately RMB286.1 million for the nine months ended September 30, 2009, we underestimated our net profit before taxation and paid amounts less than our actual tax liabilities. As a result we had approximately RMB545.6 million income tax payable as of September 30, 2010. We had paid such tax as of the Latest Practicable Date.

CAPITAL EXPENDITURE, COMMITMENTS AND CONTINGENT LIABILITIES

Capital expenditure

Our capital expenditures comprised expenditures on property, plant and equipment. The following table sets forth our capital expenditures during 2007, 2008, 2009 and the nine months ended September 30, 2010:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	(RMB'000)			
Property, plant and equipment	<u>3,265,843</u>	<u>1,908,170</u>	<u>1,089,144</u>	<u>2,412,552</u>

The total budgeted capital expenditures for the Binzhou Manufacturing Base Phase I is approximately RMB4.2 billion. As of September 30, 2010, the carrying amount of property, plant and equipment of the Binzhou Manufacturing Base Phase I was approximately RMB653.2 million, and the relevant capital commitment was approximately RMB3,501.5 million. Our total capital expenditure for 2011 is expected to be approximately RMB10,219.9 million, consisting of approximately RMB3,168.4 million for our Binzhou Manufacturing Base Phase I, approximately RMB3,843.9 million for our Binzhou Manufacturing Base Phase II and approximately RMB3,207.6 million for our Binzhou Manufacturing Base Phase III.

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Capital commitments

The table below sets forth the breakdown of our capital commitments as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	September 30, 2010
	(RMB'000)			
Capital expenditure in respect of acquisition of property, plant and equipment:				
– contracted for but not provided. . . .	887,386	558,659	365,039	83,996
– authorized but not contracted for . .	–	–	–	3,213,199
	<u>887,386</u>	<u>558,659</u>	<u>365,039</u>	<u>3,297,195</u>

Our capital commitments increased significantly to RMB3,297.2 million as of September 30, 2010 from RMB365.0 million as of December 31, 2009, which was primarily due to our Binzhou Manufacturing Base Phase I. In addition, although we had entered into a number of construction contracts for our Binzhou Manufacturing Base Phase I, as certain of such construction contracts did not specify prices, the relevant capital commitments were recorded as authorized but not contracted for.

Contingent liabilities

On September 15, 2010, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People's Court in relation to a boiler supply agreement entered into by and between Aluminum & Power and Wuhan Boiler dated July 11, 2003, seeking for the payment of purchase price and refund of quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, an overdue fine of approximately RMB57.5 million and the relevant litigation expenses. See "Business – Legal Proceedings." As of the Latest Practicable Date, this case is still at a preliminary stage. Our Group has accrued in full the remaining contract sum including the quality deposits in an aggregate amount of RMB52.3 million in relation to the litigations brought by Wuhan Boiler. In the opinion of our Directors, the other claims made by Wuhan Boiler, including damages, penalty interests and litigation costs are without merit and they intend to defend vigorously against such claims. Our Directors are of the opinion that it is not probable that the claims will result in payment by our Group in excess of RMB52.3 million and accordingly, no additional provision has been made. In addition, on January 16, 2011, Mr. Zhang, the Controlling Shareholder of our Company, agreed in writing to indemnify any losses that may be incurred by Aluminum & Power arising from the claim brought by Wuhan Boiler.

On November 8, 2010, Wuhan Boiler initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People's Court in relation to a boiler supply agreement entered into by and between Aluminum & Power and Wuhan Boiler dated February 16, 2006, seeking for an overdue fine of approximately RMB51.5 million and the relevant litigation expenses, which Wuhan Boiler alleges Gaoxin Aluminum & Power and Aluminum & Power should be jointly and severally responsible for. On November 17, 2010, Wuhan Boiler initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People's Court in relation to a boiler supply agreement entered into by and between Aluminum & Power and Wuhan Boiler dated May 24, 2006, seeking for the termination of the May Boiler Supply Agreement, the payment of purchase price RMB32.7 million, damages of approximately RMB13.0 million, an overdue fine of approximately RMB96.8 million and the relevant litigation expenses, which Wuhan Boiler alleges Gaoxin Aluminum & Power and Aluminum &

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Power should be jointly and severally responsible for. See “Business – Legal Proceedings.” As of the Latest Practicable Date, these two cases are still at a preliminary stage. Because Aluminum & Power entered into these boiler supply agreements on behalf of Chuangye Group, on January 16, 2011, Chuangye Group agreed in writing to indemnify any losses incurred by Aluminum & Power and the Group if the final judgments are against Aluminum & Power.

As of January 31, 2011, our Group had contingent liabilities in respect of these disputes of approximately RMB335.0 million and the relevant litigation expenses. Our Controlling Shareholders have undertaken to indemnify any losses incurred by Aluminum & Power and our Group if the final judgment is against Aluminum & Power in the legal proceedings in relation to the boiler supply agreement dated July 11, 2003. In addition, Chuangye Group has undertaken to indemnify any losses incurred by Aluminum & Power and our Group if the final judgments are not in favor of Aluminum & Power in the legal proceedings in relation to the boiler supply agreements dated February 16, 2006 and May 24, 2006. See “Business – Legal Proceedings.”

INDEBTEDNESS

Borrowing

As of January 31, 2011, which is the latest practicable date for the purpose of this indebtedness statement, we had total borrowings of RMB4,433.5 million, which all represents bank borrowings. The following table sets forth our bank borrowings as of the dates indicated.

	As of December 31,			As of September 30,	As of January 31,
	2007	2008	2009	2010	2011
	(RMB'000)				
Secured bank borrowings ⁽¹⁾	346,700	97,500	22,000	17,000	89,480
Unsecured bank borrowings	490,455	1,452,007	1,022,492	4,244,000	4,344,000
Total	837,155	1,549,507	1,044,492	4,261,000	4,433,480

(1) Secured by bills receivable, restricted bank deposits and prepaid lease payment.

The following table sets forth information on our fixed-rate bank borrowings and floating-rate bank borrowings as of the dates indicated.

	As of December 31,			As of September 30,	As of January 31,
	2007	2008	2009	2010	2011
	(RMB'000)				
Fixed-rate borrowings	487,155	354,938	233,890	1,400,000	1,472,480
Floating-rate borrowings	350,000	1,194,569	810,602	2,861,000	2,961,000
	837,155	1,549,507	1,044,492	4,261,000	4,433,480

FINANCIAL INFORMATION

The following table sets forth information on the maturity profile of our bank borrowings as of the dates indicated.

	As of December 31,			As of September 30,	As of January 31,
	2007	2008	2009	2010	2011
	(RMB'000)				
Banks borrowings repayable:					
Within one year	567,155	869,970	929,173	300,000	472,480
In the second year	60,000	414,032	115,319	–	307,000
In the third year	60,000	175,505	–	3,661,000	3,354,000
In the fourth year	60,000	60,000	–	–	300,000
In the fifth year	60,000	30,000	–	300,000	–
In the sixth year	30,000	–	–	–	–
	<u>837,155</u>	<u>1,549,507</u>	<u>1,044,492</u>	<u>4,261,000</u>	<u>4,433,480</u>

Fixed interest rate borrowings are charged at the prevailing market rates ranging from 6.12% to 8.40%, 6.12% to 8.39%, 1.65% to 8.22% and 5.58% to 5.73% per annum for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Interest on borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China. The effective weighted average annual rate for the years ended December 31, 2007, 2008 and 2009 and nine months ended September 30, 2010 were 7.38%, 7.10%, 4.88% and 5.25% per annum, respectively. Our Directors have confirmed that there was no delay or default in repayment of bank and other borrowings by our Group during the Track Record Period.

Our gearing ratio was 24.0%, 47.9%, -5.1% and 50.2% as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively. Gearing ratio is net borrowings divided by total capital. Net borrowings include interest-bearing bank loans less cash and cash equivalents and restricted cash. Capital represents the total equity. All guarantees provided by third parties to us will be released or withdrawn prior to or upon the Listing Date.

Our bank borrowings increased as of December 31, 2008 as compared to December 31, 2007 primarily because we borrowed a three-year term loan of USD130 million from a syndicate led by the Royal Bank of Scotland for importing bauxite in connection with the alumina agency business. This loan was fully repaid in April 2010.

Our bank loans of RMB3,761 million are guaranteed by Chuangye Group as of September 30, 2010. These guarantees were released by November 2010.

As of September 30, 2010, we had the following outstanding loans which contain cross-default clauses: (i) RMB1,661 million from the Industrial and Commercial Bank of China, Zouping Sub-branch, or the ICBC, (ii) RMB1,200 million from the Bank of Communications, Shandong Branch, or the BoComm, and (iii) RMB200 million from China Construction Bank, or the CCB. Under the loans from the ICBC, or the ICBC Loans, if our Group fails to repay any other loans upon maturity or accelerated maturity, or if our Group fails to perform or breach any obligations under any other loan agreements which have affected or may affect the performance of the ICBC Loans, such failure will be deemed as default and the ICBC may, treat the ICBC Loans as mature and request repayment of the ICBC Loans together with the interest

FINANCIAL INFORMATION

immediately, as well as compensation if the ICBC has suffered any damages. Under the loan from the BoComm, or the BoComm Loan, if our Group breaches its obligation under any other loan agreements with the BoComm, the BoComm may declare that the outstanding BoComm Loan becomes mature and request repayment of the outstanding BoComm Loan together with the interest immediately. Under the loan from the CCB, or the CCB Loan, if our Group fail to pay any bank borrowings due, including borrowings from the CCB or any other banks, the CCB may declare that the outstanding CCB Loan becomes mature and request repayment of the outstanding principal and interest immediately.

For the nine months ended September 30, 2010, we have borrowed and drawn bank loans of approximately RMB4,261.0 million. We have drawn approximately RMB1,961.0 million, RMB1,600.0 million, RMB200.0 million and RMB500.0 million in March, April, May and June 2010, respectively. These Loans, together with cash generated from our operating activities, were used to repay related parties and for capital expenditure purpose. Please refer to “– Liquidity and Capital Resources – Cash flows.”

As of September 30, 2010, we had other borrowings amounted to approximately RMB71.8 million, which represented a loan of US\$10.5 million. On March 16, 2010, Hongqiao Hong Kong paid the consideration to Chuangye Group for its acquisition of 2% equity interest in Shandong Hongqiao from Chuangye Group, which was funded by a term loan facility provided to our Company by a commercial bank in Hong Kong on 9 March 2010. Our Company repaid such bank loan on May 28, 2010. In order to repay such loan from such commercial bank, our Company entered into a loan agreement on May 15, 2010 with Winning Shipping (HK) Company Limited, or Winning Shipping (HK), an Independent Third Party. Pursuant to such loan agreement, Winning Shipping (HK) agreed to lend US\$10.5 million to our Company for a term of two years and if our Company can repay such loan within two years, the loan will be free of interest. This loan is unsecured and unguaranteed. If our Company fails to repay such loan within two years, our Company need to pay the principal and the interests at an annual interest rate of 4%. As confirmed by our Directors, Winning Shipping (HK) provided such loan to our Company mainly due to that Mr. Zhang Bo, one of our Directors, has personal friendship with the chairman of Winning Shipping (HK). We fully repaid such amount in advance in November 2010.

As of January 31, 2011, we did not have any undrawn banking facilities. Our Directors confirm that there has been no material change in our indebtedness or contingencies since September 30, 2010.

In addition, our Group had outstanding at that date contingent liabilities in respect of disputes with supplier of approximately RMB335.0 million and the relevant litigation expenses.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on January 31, 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Group did not have any loan default during the period from January 1, 2007 to the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

WORKING CAPITAL

Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks and financial institutions, we believe that we will have available sufficient working capital for our operations for the 12 months following the date of this prospectus.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are, in the normal course of business, exposed to market risk such as interest rate risk, commodity price risk and liquidity risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Interest rate risk

Our fair value interest rate risk relates primarily to our fixed-rate bank borrowings subject to negotiation annually. Our cash flow interest rate risk relates primarily to our restricted bank deposits, bank balances and cash and floating interest rate bank borrowings. We currently do not use any derivative contracts to hedge its exposure to interest rate risk. However, our management will consider hedging significant interest rate exposure should the need arise. If interest rates had been 27 basis points higher/lower and all other variables were held constant, our profit for 2007, 2008 and the nine months ended September 30, 2010 would decrease/increase by approximately RMB52,000, RMB1,791,000 and RMB1,805,000, respectively, while our profit for 2009 would increase/decrease by approximately RMB1,023,000.

Commodity price risk

Alumina is the major raw material of our products and the purchase of alumina account for over 30% of total cost of sales in the Track Record Period. Fluctuations on commodity price of alumina will have a significant impact on our earnings, cash flows as well as the value of the inventories. In addition, we are exposed to commodity price risk through fluctuations of the price of aluminum as we generate our revenue primarily from sales of aluminum products in China. We do not enter into any derivative instruments or futures to hedge any price fluctuations of alumina or aluminum. Therefore, fluctuations of alumina and aluminum prices could have a significant effect on our revenue and profit for a given period.

Liquidity risk

We had net current liabilities as of December 31, 2007, 2008 and 2009, as we took advantage of the financing from amounts due to related parties to partly finance our operation and utilized short-term bank borrowings for expanding our business. The majority of our liabilities are short-term, consisting mainly of trade payables, bills payable, amounts due to related parties and short-term bank borrowings, giving rise to our net current liabilities position. We also have limited trade receivables as we generally first receives advances from customers. As of September 30, 2010, we had net current assets of approximately RMB1,955.1 million.

We have built an appropriate liquidity risk management framework for the management of our short, medium and long-term funding and liquidity management requirements. We monitor and maintain a level of cash and cash equivalents as our management deems adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We rely on cash generated from operating activities as a significant source of liquidity. Other than the cash generated from operating activities, our management is responsible for obtaining funding from bank loans and our management also monitors the utilization of bank borrowings and ensures compliance with loan covenants. In addition, we have established a team to review and forecast our working capital situation for each month of the next fiscal year at the end of the current fiscal year, and to review and forecast our working capital situation for the next month at the end of the current month. Such forecast will be presented to our management team, which will in turn discuss and decide whether to raise funds externally to meet our needs of working capital. Our directors believe that we will have sufficient funds available to meet our financial obligations in the foreseeable future based on our management's working capital forecast to operate as going concern.

FINANCIAL INFORMATION

Credit risk

Our credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, amounts due from related parties, bank balances and deposits. At the end of each reporting period, our maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets stated in the combined statement of financial position.

We have concentration of credit risk in respect of trade receivables as our largest trade receivable amounted to RMB22.6 million, RMB16.9 million, RMB29.9 million and RMB4.3 million and represented 22.0%, 7.9%, 16.5% and 65% of our total trade receivables respectively as of December 31, 2007, 2008 and 2009 and September 30, 2010. Our five largest trade receivables amounted to RMB63.8 million, RMB45.6 million, RMB56.2 million and RMB6.5 million and represented 62.2%, 21.3%, 31.1% and 100.0% of our total trade receivables as of those dates, respectively.

In order to minimize our credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, we consider that our credit risk is significantly reduced.

Foreign currency risk

We collect all of the revenue in RMB and incur most of the expenditures as well as capital expenditures in RMB. Certain bank balances and borrowings are denominated in foreign currencies which expose us to currency risk. If the exchange rate of USD against RMB had increased/decreased by 5% while all other variables are held constant, our profit for 2007, 2008, 2009 and nine months ended September 30, 2010 would have decreased/increased by approximately RMB3.0 million, RMB32.0 million, RMB26.6 million and RMB1.3 million, respectively. We have not used any financial instruments to hedge against currency risk. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there was no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2010

We believe that on the bases and assumptions as set forth in Appendix III to this prospectus, and in the absence of unforeseen circumstances, our consolidated profit attributable to equity holders of our Company for the year ended December 31, 2010 is expected to be not less than RMB4,100 million. The profit estimate has been prepared by our Directors based on our audited consolidated results for the nine months ended September 30, 2010 and our Group's unaudited consolidated results for the three months ended December 31, 2010.

The profit estimate is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants' Report in Appendix I to this prospectus.

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The unaudited pro forma estimated earnings per Share for the year ending December 31, 2010 is expected to be not less than RMB0.70. This amount has been calculated based on the estimated consolidated profit attributable to equity holders of our Company for the year ended December 31, 2010 and assuming that our Company had been listed since January 1, 2010 and a total of 5,885,000,000 Shares were in issue during the year ended December 31, 2010, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

DISTRIBUTABLE RESERVES

Our Company was incorporated on February 9, 2010 and has not carried out any business since the date of incorporation. We did not record any distributable reserves as of September 30, 2010.

DIVIDEND POLICY

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their profit for the year as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or pursuant to any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future. There is currently no arrangement under which future dividends are waived or agreed to be waived. Our Directors confirm that we do not intend to distribute the undistributed profits in 2008 and 2009 of the relevant PRC subsidiaries in the foreseeable future.

Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

PROPERTY VALUATION

Particulars of our Group's property interests are set out in Appendix IV to this prospectus. Jones Lang LaSalle Sallmanns Limited has valued the property interests of our Group as of December 31, 2010. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The table below sets forth the reconciliation of the net book value of relevant property interests including land use rights from our audited consolidated financial statements as of September 30, 2010 to the unaudited net book value of our Group's property interests as of December 31, 2010:

	RMB'000
Net book value of property interests of our Group as of September 30, 2010	2,449,359 ⁽¹⁾
Movements for the three months ended December 31, 2010	335,116
Additions	358,377
Depreciation	(23,261)
Disposals	0
Net book value as of December 31, 2010	2,784,475
Valuation surplus as of December 31, 2010	701,758
Valuation as of December 31, 2010 per Appendix IV Valuation Report	3,486,233

(1) This amount consists of approximately RMB2,083.8 million of buildings, RMB279.9 million of construction in progress and RMB85.6 million of prepaid lease payments as of September 30, 2010.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as of September 30, 2010 as if the Global Offering had occurred on September 30, 2010 and is based on the consolidated net assets derived from the audited financial information of our Group as of September 30, 2010, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of September 30, 2010 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾	
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)	RMB	HK\$
Based on the Offer Price of HK\$7.20 for each Offer Share	6,079,260	5,188,225	11,267,485	1.91	2.26
Based on the Offer Price of HK\$8.30 for each Offer Share	6,079,260	5,988,359	12,067,619	2.05	2.43

FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets attributable to the owners of our Company as of September 30, 2010 are based on audited consolidated net assets attributable to the owners of our Company as of September 30, 2010 of approximately RMB6,079,260,000 as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 885,000,000 shares at the offer price of lower limit and upper limit of HK\$7.20 and HK\$8.30 per Share, respectively, after deduction of estimated related fees and expenses and do not take into account of any Share that may be issued pursuant to the exercise of the Over-allotment Option or Issuing Mandate, or any Shares which may be repurchased pursuant to the repurchase mandate. They are converted into Renminbi at an exchange rate of HK\$1.00 to RMB0.8435. No representation is made that Hong Kong dollar amounts have been, could have been or could be translated to Renminbi amounts, or vice versa, at that rate or at any other rates or at all.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 5,885,000,000 Shares in issue immediately following completion of the Global Offering. It does not take into account of any Share which may be issued upon exercise of the Over-allotment Option or Issuing Mandate, or any Shares which may be repurchased pursuant to the repurchase mandate.
4. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share are converted into Hong Kong Dollars at an exchange rate of RMB0.8435 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or could be translated to Hong Kong dollar amounts, or vice versa, at that rate or at any other rates or at all.
5. By comparing the valuation of our property interests as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB701.76 million as compared to the carrying amounts of our Group's property interests as of December 31, 2010, which has not been included in the above consolidated net tangible assets attributable to owners of our Company. The valuation surplus of our property interests will not be incorporated in our Group's consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional annual depreciation charge of approximately RMB13,453,000 would be incurred.

NO MATERIAL ADVERSE CHANGE

With regard to the demand for and prices of aluminium products, the expansion of our Group's production capacity, prices of raw materials, electricity and coal prices and the business environment in the PRC, our Directors have confirmed that there has been no material adverse change in our financial or trading position or prospects since September 30, 2010 (being the date to which our latest audited consolidated financial statements were prepared, as set out in the Accountants' Report on our Group in Appendix I to this prospectus), and there has been no material event since September 30, 2010 which would affect the information contained in the Accountants' Report on our Group in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business – Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds of the Global Offering (after deducting the relevant expenses) are estimated to be approximately HK\$6,605.4 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$7.75 per Share, being the mid-point of the stated range of the Offer Price between HK\$7.20 and HK\$8.30 per Share. If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to our Company from the offering of these additional Shares will be approximately HK\$1,022.6 million, after deducting the relevant expenses, assuming an Offer Price of HK\$7.75 per Share, being the mid-point of the Offer Price range stated in this prospectus. We intend to apply the net proceeds from the Global Offering in the following manner:

- approximately 88%, or HK\$5,812.8 million, for the expansion of our production capacity. The Binzhou Manufacturing Base Phase I is expected to have an aggregate annual production capacity of approximately 310,000 tons of aluminum alloy products. The total budgeted capital expenditures for the Binzhou Manufacturing Base Phase I are approximately RMB4.2 billion. We intend to use approximately HK\$1.9 billion (RMB1.6 billion) for the construction of our Binzhou Manufacturing Base Phase I. We started the trial production of the Binzhou Manufacturing Base Phase I in late September 2010 upon partial completion of this project and expect to fully complete the construction of this project by the end of March 2011, at which time our annual production capacity will increase to approximately 1,226,000 tons. We plan to further expand our aggregate annual production capacity by approximately 300,000 tons of aluminum alloy products through the Binzhou Manufacturing Base Phase II. The total budgeted capital expenditures for the Binzhou Manufacturing Base Phase II are approximately RMB3.9 billion. We intend to use the remaining unused proceeds, which are expected to amount to approximately HK\$3.9 billion (RMB3.3 billion), for the construction of our Binzhou Manufacturing Base Phase II. We started the construction of our Binzhou Manufacturing Base Phase II in December 2010, and we expect to start production at our Binzhou Manufacturing Base Phase II in June 2011 upon the partial completion of this project and fully complete the construction of this project in July 2011. Our PRC legal advisors, Zong Heng Law Firm, have advised us that we have obtained the requisite governmental approvals and completed the requisite governmental filings for the construction of the Binzhou Manufacturing Base I and the Binzhou Manufacturing Base II. We believe that these projects will help us expand our production capacity and help us optimize our production process and enhance our market position;
- approximately 2%, or HK\$132.1 million, for research and development activities and sales and marketing. We plan to apply approximately 1.5% of the net proceeds, which are expected to amount to approximately HK\$99.1 million, to our research and development activities. We intend to use approximately HK\$23.7 million (RMB20.0 million) to develop our automatic and integrated work safety monitoring system, and the remaining unused proceeds, which are expected to amount to approximately HK\$75.4 million, for the development of our research and development center, including recruitment of more research and development personnel, to develop new products, such as high value-added aluminum fabrication products, to procure advanced equipment for our laboratory to improve our production technology, enhance product quality and reduce production cost. Preparation for the center commenced in April 2010 and it is expected to be put into use in May 2011. We had invested approximately RMB43.1 million as of September 30, 2010. We plan to purchase equipment for the center from suitable domestic and international suppliers. In addition, we plan to apply approximately 0.5% of the net proceeds, which are expected to amount to approximately HK\$33.0 million, to expand our sales and distribution network and develop the market for our new products, including establishment of sales offices, provision of training programs

FUTURE PLANS AND USE OF PROCEEDS

to our sales and marketing personnel, participation in conferences and trade fairs and exhibitions, advertisement of our products in China and overseas, development of our website for sales and marketing, improvement of after-sale services and remuneration for our sales and marketing personnel, to further strengthen our market position; and

- approximately 10%, or HK\$660.5 million, for working capital and general corporate purposes. We intend to use such working capital primarily for the procurement of raw materials and electricity within three months after the Listing.

To the extent our net proceeds are less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. To the extent our net proceeds are more than expected, including any additional net proceeds that we would receive from any exercise of the Over-allotment Option at any price within the stated Offer Price range, in full or in part, such amount will be applied to the expansion of our production capacity as described above, and any remaining unused amount may be applied to working capital and potential acquisitions. We have not identified any acquisition target as of the Latest Practicable Date.

To the extent that our net proceeds are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term interest bearing deposits.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Joint Lead Managers

J.P. Morgan Securities (Asia Pacific) Limited
BOCOM International Securities Limited
ICBC International Securities Limited
Mizuho Securities Asia Limited
BNP Paribas Capital (Asia Pacific) Limited
Barclays Capital Asia Limited

Co-Manager

ABCI Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on March 11, 2011. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The Sole Global Coordinator (for itself and the other Hong Kong Underwriters) shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect prior to 8:00 a.m. on the Listing Date if:

- (1) there has come to the notice of the Sole Global Coordinator:
 - (a) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any material respect, any of the warranties or undertakings given by our Company or any of the Controlling Shareholders in the Hong Kong Underwriting Agreement; or
 - (b) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than any of the Hong Kong Underwriters or the International Underwriters); or
 - (c) that any statement contained in any of this prospectus and the Application Forms and/or in any notices, announcements, WPIP, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respect, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of this prospectus and the Application Forms and/or any notices, announcements, WPIP,

UNDERWRITING

- advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
- (d) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material misstatement or omission from any of this prospectus and the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (e) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
 - (f) any material adverse change or development involving a prospective adverse change in the assets, liabilities, business, prospects, trading or otherwise, results of operations, position or condition, financial or otherwise, of the Group as a whole; or
 - (g) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
 - (i) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (2) there shall have developed, occurred, happened or come into effect:
- (a) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Hong Kong, the PRC, the United States, the European Union (or any member thereof), the Cayman Islands, the British Virgin Islands or any other jurisdictions relevant to our Company or any of its subsidiaries (each a “**Relevant Jurisdiction**”); or
 - (b) any new law or regulation or any change, development or announcement or publication involving a prospective change in existing law or regulations, or any change, development or announcement or publication involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

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- (c) the imposition or declaration of:
 - (i) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (ii) any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), the PRC, the European Union (or any member thereof), the Cayman Islands or the British Virgin Islands, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (d) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
- (e) any litigation or claim being threatened or instigated against our Company or any of its subsidiaries or any director of the Company or any of the Controlling Shareholders; or
- (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (g) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (h) the chairman or chief executive officer or chief financial officer of the Company vacating his or her office; or
- (i) an authority or a political body or in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (j) a contravention by our Company or any of its subsidiaries of the Listing Rules or applicable laws; or
- (k) a prohibition on the Company for whatever reason from allotting or selling the Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (l) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (m) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (n) any event or series of events in the nature of force majeure, including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, labour disputes strikes, lock-outs, riots, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, outbreak of infectious diseases or epidemics including, but not limited to, SARS, H1N1 and H5N1 and such related/mutated forms or

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accident or interruption or delay in transportation, economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdictions; or

- (o) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (p) order or petition for the winding up of our Company or any of its subsidiaries or any composition or arrangement made by our Company or any of its subsidiaries with its creditors or a scheme of arrangement entered into by our Company or any of its subsidiaries or any resolution for the winding up of our Company or any of its subsidiaries or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of our Company or any of its subsidiaries,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator:

- (1) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or otherwise, results of operations, position or condition, financial or otherwise, of the Group as a whole; or
- (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (3) makes or will make or may make it inadvisable or inexpedient or impracticable for any material part of the Hong Kong Underwriting Agreement, or for the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (4) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to our Company that, except pursuant to any lending of Shares by Hongqiao Holdings pursuant to the Stock Borrowing Agreement, he or it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner; and

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- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be the controlling shareholder of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his or its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

- (i) when he or it pledges or charges any Shares beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he or it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Upon receiving such information in writing from the Controlling Shareholders, we shall, as soon as practicable, notify the Stock Exchange and make a public disclosure of such information in accordance with the Listing Rules.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

Except for the issue and allotment of such number of Shares pursuant to the Capitalization Issue and the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “First Six Month Period”), our Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters not to, and to procure each of our subsidiaries not to without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of any subsidiary of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such subsidiary, as applicable); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of any subsidiary of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such subsidiary, as applicable); or

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- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above;
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii), or (iii) above,

in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such subsidiary of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

In the event that, during the period of six months commencing on the date on which the First Six Month Period expires (the “Second Six Month Period”), our Company enters into any of the transactions specified in paragraph (i), (ii), or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of the Controlling Shareholders has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters to procure our Company to comply with the undertakings above.

(B) Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters that except pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholders will, and will procure that none of its associates will:

- (i) during the First Six Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of any subsidiary of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

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- (ii) during the Second Six Month Period, enter into any of the transactions specified in paragraph (i)(a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company,

until the expiry of the Second Six Month Period, in the event that it enters into any of the transactions specified in paragraph (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Each of the Controlling Shareholders has further undertaken to our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters that it will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date on which the Second Six Month Period expires:

- (i) upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or other securities of our Company beneficially owned by it for a bona fide commercial loan, immediately inform our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities or interests in the Shares or securities of our Company will be disposed of, immediately inform our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters in writing of such indications.

Our Company has agreed and undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners of the Hong Kong Public Offering and the Hong Kong Underwriters, that, upon receiving such information in writing from the Controlling Shareholders, our Company shall, as soon as practicable, notify the Hong Kong Stock Exchange and make a public disclosure of such information in accordance with the Listing Rules.

Indemnity

Our Company and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by any of our Company and the Controlling Shareholders of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters’ Interests in our Company

Except for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Company or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

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International Offering

In connection with the International Offering, it is expected that our Company and the Controlling Shareholders will enter into the International Underwriting Agreement with the Joint Bookrunners of the International Offering on behalf of the International Underwriters. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure purchasers for such International Offer Shares.

Under the International Underwriting Agreement, our Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by J.P. Morgan Securities Ltd. on behalf of the International Underwriters for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue up to an aggregate of 132,750,000 additional Shares, together representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Hong Kong Offer Shares less any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, out of which the Hong Kong Underwriters will pay any sub-underwriting commission, and ignoring for this purpose any Hong Kong Offer Shares reallocated from the International Offering due to over-subscription in the Hong Kong Public Offering. The underwriting commission for such reallocated shares will continue to be payable under the International Underwriting Agreement.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$7.75, being the mid-point of our offer price range of HK\$7.20 to HK\$8.30 per Share, the aggregate commissions and fees, together with the SFC transaction levy of 0.003% per Share, the Hong Kong Stock Exchange trading fee of 0.005% per Offer Share, legal and other professional fees, printing, and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$253.3 million in aggregate.

Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (1) the Hong Kong Public Offering of 88,500,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below in “The Hong Kong Public Offering;” and
- (2) the International Offering of an aggregate of 796,500,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Shares under the Hong Kong Public Offering or apply for or indicate an interest for Shares under the International Offering, but may not do both.

In order to facilitate settlement of the over-allocations in the International Offering and for the purpose of stabilization of the market price of the Shares, it is expected that the J.P. Morgan Securities Ltd. and Hongqiao Holdings will enter into the Stock Borrowing Agreement pursuant to which Hongqiao Holdings will, if so requested by J.P. Morgan Securities Ltd. and subject to the terms of the Stock Borrowing Agreement, make available to J.P. Morgan Securities Ltd. up to 132,750,000 Shares held by it to facilitate settlement of over-allocations in the International Offering.

The stock borrowing arrangements under the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules and are expected to be on the following terms in compliance with Rule 10.07(3) of the Listing Rules:

- such stock borrowing arrangements will only be effected by J.P. Morgan Securities Ltd. for the sole purpose of settlement of the over-allocations in the International Offering;
- the maximum number of Shares borrowed from Hongqiao Holdings will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- no payment or other benefit will be made to Hongqiao Holdings by J.P. Morgan Securities Ltd. under the Stock Borrowing Agreement;
- the same number of Shares so borrowed will be returned to Hongqiao Holdings or its nominees (as the case may be) on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; and (ii) the day on which the Over-allotment Option is exercised in full and the relevant Shares have been issued; and
- the arrangements under the Stock Borrowing Agreement will be effected in compliance with all the applicable laws, rules and regulatory requirements.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

We are initially offering 88,500,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Shares between (1) the International Offering and (2) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 1.50% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-Allotment Option is not exercised.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out below in “Conditions of the Hong Kong Public Offering”.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes (subject to adjustment of odd lot size): pool A and pool B. The Offer Shares in pool A will consist of 44,250,000 Offer Shares (representing 50% of the 88,500,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will consist of 44,250,000 Offer Shares (representing 50% of the 88,500,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 44,250,000 Offer Shares, being the number of Offer Shares initially allocated to each pool, are to be rejected.

Reallocation

The allocation of Offer Shares between (i) the Hong Kong Public Offering and (ii) the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 265,500,000 Shares (in the case of (i)), 354,000,000 Shares (in the case of (ii)) and 442,500,000 Shares (in the case of (iii)) representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Underwriters may be reduced in such manner and proportions as the Sole Global Coordinator may agree with the relevant International Underwriters. In addition, the Sole Global Coordinator may at its discretion reallocate Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority and discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Underwriters, in such manner and proportions as the Sole Global Coordinator may agree with the relevant International Underwriters.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$8.30 per Offer Share in addition to the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Pricing and Allocation" below, is less than the maximum price of HK\$8.30 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares".

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The International Offering will consist of an initial offering of 796,500,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "bookbuilding" process described in "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy additional Shares, and/or hold or sell its Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters and exercisable by J.P. Morgan Securities Ltd. on behalf of the International Underwriters.

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, J.P. Morgan Securities Ltd. has the right, exercisable by J.P. Morgan Securities Ltd. at any time from the Listing Date to Saturday, April 16, 2011, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 132,750,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional International Offer Shares will represent approximately 2.21% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Any proceeds from any exercise of the Over-allotment Option will be used by us as described in the section headed “Future Plans and Use of Proceeds” in this prospectus.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, J.P. Morgan Securities Ltd., its affiliates or any person acting for them, as stabilizing manager, on behalf of the Underwriters, may effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on J.P. Morgan Securities Ltd., its affiliates or any persons acting for them, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of J.P. Morgan Securities Ltd., its affiliates or any person acting for it or them.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (1) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (2) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (3) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (1) or (2) above, (4) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (5) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (6) offering or attempting to do anything as described in (2), (3), (4) or (5) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- J.P. Morgan Securities Ltd., its affiliates or any person acting for them, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which J.P. Morgan Securities Ltd., its affiliates or any person acting for them, will maintain such a long position;
- liquidation of any such long position by J.P. Morgan Securities Ltd., its affiliates or any person acting for them, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Saturday, April 16, 2011,

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being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of our Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, J.P. Morgan Securities Ltd., its affiliates or any person acting for it or them may cover such over-allocation by (among other methods) using Shares purchased by J.P. Morgan Securities Ltd., its affiliates or any person acting for it or them in the secondary market, exercising the Over-allotment Option in full or in part or a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued upon exercise of the Over-allotment Option, being 132,750,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering. Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, March 18, 2011, and in any event on or before Tuesday, March 22, 2011, by agreement between the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) and our Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$8.30 per Offer Share and is expected to be not less than HK\$7.20 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction. Upon issue of such a notice, the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, on behalf of

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the Underwriters and with prior consent of the Joint Bookrunners, and our Company will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners), will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering assuming that the Over-allotment Option is not exercised), are estimated to be approximately HK\$6,605.4 million, assuming an Offer Price of HK\$7.75 per Offer Share, being the approximate mid-point of the proposed offer price range of HK\$7.20 to HK\$8.30 (or if the Over-allotment Option is exercised in full, approximately HK\$7,628.0 million, assuming an Offer Price per Share of HK\$7.75).

The final Offer Price, an indication of the level of interest in the International Offering, level of applications in the Hong Kong Public Offering and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on Wednesday, March 23, 2011 on the Hong Kong Stock Exchange's website at www.hkexnews.hk, our Company's website at www.hongqiaochina.com, in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator, on behalf of the Underwriters and with prior consent of the Joint Bookrunners, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

For a summary of these underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, see the section headed "Underwriting" of this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (1) the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue, the Shares being offered pursuant to the Global Offering (subject only to allotment) and the Shares to be issued pursuant to the Capitalization Issue and such listing approval and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

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- (2) the Offer Price having been duly agreed and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (3) the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- (4) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters and with prior consent of the Joint Bookrunners) on or before Tuesday, March 22, 2011, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the Hong Kong Stock Exchange's website at www.hkexnews.hk and our Company's website at www.hongqiaochina.com, in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares – Dispatch/Collection of Share Certificates and Refund Monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)(as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, March 24, 2011, provided that (1) the Global Offering has become unconditional in all respects and (2) the right of termination as described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares, any Shares to be issued pursuant to the exercise of the Over-allotment Option.

No part of the share capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, March 24, 2011, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, March 24, 2011.

HOW TO APPLY FOR HONG KONG OFFER SHARES

I. HOW TO APPLY FOR HONG KONG OFFER SHARES

1. Who can apply for the Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you, or any person(s) for whose benefit you are applying, are an individual, and:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States (as defined in Regulation S); and
- (d) are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- (a) have a valid Hong Kong identity card number; and
- (b) be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO** service.

If the applicant is a firm, the application must be in the names of the individual members, not in the name of the firm. If the applicant is a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, our Company and the Sole Global Coordinator (or its agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the **White Form eIPO** Service Provider (where applicable) in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares, but may not do both.

2. Channels of applying for the Hong Kong Offer Shares

There are four channels to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the Shares to be issued in your own name;
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk if you want the Shares to be issued in your own name;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

You or your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider (individual applicant only).

3. Where to collect this prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus from any of the following addresses of the Hong Kong Underwriters:

J.P. Morgan Securities (Asia Pacific) Limited

Level 28, Chater House
8 Connaught Road
Central, Hong Kong

BOCOM International Securities Limited

901-906 Man Yee Building
68 Des Voeux Road Central
Hong Kong

ICBC International Securities Limited

Levels 17 & 18
Three Pacific Place
1 Queen's Road East
Hong Kong

Mizuho Securities Asia Limited

12th Floor, Chater House
8 Connaught Road Central
Hong Kong

BNP Paribas Capital (Asia Pacific) Limited

Suite 6415, 64th Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Barclays Capital Asia Limited

41st Floor, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

ABCI Securities Company Limited

13th Floor, Fairmont House
8 Cotton Tree Drive
Central, Hong Kong

or any of the following branches of Bank of Communication Co., Ltd. Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	King's Road Sub-Branch	67-71 King's Road
	Chaiwan Sub-Branch	G/F, 121-121A Wan Tsui Road
Kowloon	Mongkok Sub-Branch	Shops A & B, G/F, Hua Chiao Commercial Centre, 678 Nathan Road
	Kwun Tong Sub-Branch	Shop A, G/F, Hong Ning Court, 55 Hong Ning Road
	Wong Tai Sin Sub-Branch	Shops 127-129, 1/F, Lung Cheung Plaza, 136 Lung Cheung Road
New Territories	Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I
	Market Street Sub-Branch	G/F, 53 Market Street, Tsuen Wan

Industrial and Commercial Bank of China (Asia) Limited

	Branch Name	Address
Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central, Central
	West Point Branch	242-244 Queen's Road West, Sai Ying Pun
	Causeway Bay Branch	Shop A, G/F, Jardine Center, 50 Jardine's Bazaar, Causeway Bay
Kowloon	Yaumatei Branch	542 Nathan Road, Yaumatei
	Prince Edward Branch	777 Nathan Road, Mongkok
	Ngau Tau Kok Branch	Shop Nos. G211-214, G/F, Phase II, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories	Kwai Chung Branch	Unit G02, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung
	Shatin Branch	Shop 22J, Level 3, Shatin Centre

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Standard Chartered Bank (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, No.6 Nam Ning Street, Aberdeen
Kowloon	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories	Yuen Long Fung Nin Road Branch	Shop B at G/F and 1/F, Man Cheong Building, 247 Castle Peak Road, Yuen Long
	Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun

Prospectuses and Application Forms will be available for collection at the above places during the following times:

Monday, March 14, 2011 – 9:00 a.m. to 5:00 p.m.
Tuesday, March 15, 2011 – 9:00 a.m. to 5:00 p.m.
Wednesday, March 16, 2011 – 9:00 a.m. to 5:00 p.m.
Thursday, March 17, 2011 – 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, March 14, 2011 until 12:00 noon on Thursday, March 17, 2011, from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have such Application Forms and this prospectus available.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. How to apply by using a **WHITE** or **YELLOW** Application Form

- (a) Obtain an Application Form as described in “– I. How to Apply for Hong Kong Offer Shares – 3. Where to collect this prospectus and Application Forms” above.
- (b) Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order and made payable to “Horsford Nominees Limited – China Hongqiao Public Offer”. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the collection boxes by the time and at one of the locations as described in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (a) Applications on **WHITE** or **YELLOW** Application Forms” below.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the form as instructed below and sign on the first page of the application form. Only written signatures will be accepted.

- (a) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) If you are applying as an individual CCASS Investor Participant:
 - (i) the Application Form must contain your name and Hong Kong identity card number; and
 - (ii) your participant I.D. must be inserted in the appropriate box in the Application Form.
- (c) If you are applying as a joint individual CCASS Investor Participant:
 - (i) the Application Form must contain names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - (ii) your participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) If you are applying as a corporate CCASS Investor Participant:
 - (i) the Application Form must contain the company’s name and its Hong Kong business registration number; and
 - (ii) your participant I.D. and your company chop (bearing your company’s name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

HOW TO APPLY FOR HONG KONG OFFER SHARES

5. How to apply through the White Form eIPO service

- (a) If you are an individual and meet the criteria set out in “– I. How to Apply for Hong Kong Offer Shares – 1. Who can apply for the Hong Kong Offer Shares” above, you may apply through the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk. If you apply through the **White Form eIPO** service, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the **White Form eIPO** Service Provider to transfer the details of your application to our Company and its Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You should give **electronic application instructions** through the **White Form eIPO** service at the times set out in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (b) **White Form eIPO**” below.
- (g) You should make payment for your application made by the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, March 17, 2011, or such later time as described in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below, the **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.
- (h) **Warning: The application for Hong Kong Offer Shares through the White Form eIPO service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for any such applications and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

HOW TO APPLY FOR HONG KONG OFFER SHARES

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.00 per “China Hongqiao Group Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last minute for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form.

However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See “– I. How to Apply for Hong Kong Offer Shares – 8. How many applications may be made” below.

6. How to apply by giving electronic application instructions to HKSCC

(a) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS phone system by calling 2979 7888 or through the CCASS internet system (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road
Central
Hong Kong

and complete an input request form.

Prospectuses will be available for collection at the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Sole Global Coordinator and our registrars.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) Minimum Subscription Amount and Permitted Numbers

You may give electronic application instructions in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

(c) Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for any such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS phone system or the CCASS internet system, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS phone system or the CCASS internet system to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, March 17, 2011, or such later time as described in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below.

7. When may applications be made

(a) Applications on WHITE or YELLOW Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed in “– I. How to Apply for Hong Kong Offer Shares – 3. Where to collect this prospectus and Application Forms” above at the following times:

Monday, March 14, 2011 – 9:00 a.m. to 5:00 p.m.
Tuesday, March 15, 2011 – 9:00 a.m. to 5:00 p.m.
Wednesday, March 16, 2011 – 9:00 a.m. to 5:00 p.m.
Thursday, March 17, 2011 – 9:00 a.m. to 12:00 noon

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Thursday, March 17, 2011, or, if the application lists are not open on that day, then by the time and date stated in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below.

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(b) White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Monday, March 14, 2011, until 11:30 a.m. on Thursday, March 17, 2011, or such later time as described in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, March 17, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing or Custodian Participants should input **electronic application instructions** at the following times on the following dates:

Monday, March 14, 2011	– 9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, March 15, 2011	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, March 16, 2011	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, March 17, 2011	– 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) Note: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing or Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, March 14, 2011, until 12:00 noon on Thursday, March 17, 2011 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on Thursday, March 17, 2011, the last application day, or if the application lists are not open on that day, by the time and date stated in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below.

(d) Application Lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, March 17, 2011, except as provided in “– I. How to Apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(e) Effect of Bad Weather Conditions on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, March 17, 2011. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those signals in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. For this purpose, “business day” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

If the application lists of the Hong Kong Public Offering do not open and close on Thursday, March 17, 2011, or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable”, such dates may be affected and an announcement will be made in such event.

8. How Many Applications May Be Made

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application as a nominee by (1) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (2) lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees,” you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit. Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **White Form eIPO** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** through the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving more than one **electronic application instruction** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

For further information, see “Further Terms and Conditions of the Hong Kong Public Offering – 5. Multiple Applications.”

II. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$8.30 per Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 500 Shares you will pay HK\$4,191.83. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of Shares applied for up to 44,250,000 Shares. If the Offer Price as finally determined is less than HK\$8.30 per Share, appropriate refund payments (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in “– III. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies.”

You must pay the maximum Offer Price and related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for the Hong Kong Offer Shares by a cheque or a banker’s cashier order in accordance with the terms set out in the Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Hong Kong Offer Shares will be allotted to such applicant.

If your application is successful, brokerage is paid to the Hong Kong Stock Exchange or its participants (as the case may be), the Hong Kong Stock Exchange trading fee is paid to the Hong Kong Stock Exchange, and the SFC transaction levy is paid to the SFC.

III. PUBLICATION OF RESULTS, DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

It is expected that the final Offer Price, the level of indications of interest in the International Offering, the level of applications and the basis of allotment of the Hong Kong Offer Shares will be published on Wednesday, March 23, 2011 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, by **White Form eIPO** and by giving **electronic application instructions** to HKSCC via CCASS, will be made available at the times and dates and in the manner specified below:

- results of allocations for the Hong Kong Public Offering will be available from 9:00 a.m. on Wednesday, March 23, 2011 from www.hkexnews.hk (a hyperlink to which can also be found on our Company’s website at www.hongqiaochina.com);
- results of allocations for the Hong Kong Public Offering will also be available from 8:00 a.m. on Wednesday, March 23, 2011 to 12:00 midnight on Tuesday, March 29, 2011 from our designated results of allocations website at www.iporesults.com.hk. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, March 23, 2011 to Saturday, March 26, 2011;
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, March 23, 2011 to Friday, March 25, 2011 at all the receiving bank branches and sub-branches at the addresses set out in “– I. How to Apply for Hong Kong Offer Shares – 3. Where to collect this prospectus and Application Forms” above.

You should note that our website, and all information contained on our website, does not form part of this prospectus.

Refund cheques for surplus application monies (if any) under **WHITE** or **YELLOW** Application Forms or e-Refund payment instructions under **White Form eIPO** service and Share certificates for successful applicants under **WHITE** Application Forms or **White Form eIPO** service are expected to be dispatched and/or available for collection (as the case may be) on or around Wednesday, March 23, 2011.

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, March 24, 2011, provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination under the Underwriting Agreements as described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

For further information on arrangements for the dispatch/collection of Share certificates and refunds of application monies, see “Further Terms and Conditions of the Hong Kong Public Offering – 7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)” and “Further Terms and Conditions of the Hong Kong Public Offering – 8. Refund of Application Monies.”

IV. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, March 24, 2011. The Shares will be traded in board lots of 500 Shares. Shares will be eligible for CCASS subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

1. GENERAL

- (a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) as set out below.
- (b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the **White Form eIPO** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (d) In this section, references to “you,” “applicants,” “joint applicants” and other like references shall, if the context so permits, include references to making applications electronically by submitting an application to the **White Form eIPO** Service Provider through the designated website for the **White Form eIPO** service and both nominees and principals on whose behalf HKSCC Nominees is applying for the Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (e) Applicants should read this prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC prior to making any application for the Hong Kong Offer Shares.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

- (a) You offer to purchase from our Company at the Offer Price the number of the Hong Kong Offer Shares indicated in your application (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable thereto), is expected to be sent to you by ordinary post at your own risk to the address stated on your Application Form on or before Wednesday, March 23, 2011. Details of the procedure for refunds relating to the Hong Kong Public Offering methods are contained below in “– 7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part),” “– 8. Refund of Application Monies” and “– 9. Additional Information for Applicants Applying by Giving **Electronic Application Instructions** to HKSCC”.
- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance)) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).
- (e) The section headed “Personal Data” in the Application Form applies to any personal data held by the Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, March 23, 2011. See “How to Apply for Hong Kong Offer Shares – III. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies.”
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of the Hong Kong Offer Shares successfully applied for, will be made available on Wednesday, March 23, 2011, in the manner described in “How to Apply for Hong Kong Offer Shares – III. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies”.
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering” in this prospectus.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

- (a) By completing and submitting any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
 - i. instruct and authorize our Company and the Sole Global Coordinator (or their respective agents or nominees), as an agent of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name(s) or in the name of HKSCC Nominees, as the case may be, as required by our Memorandum of Association and Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - ii. undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our Articles of Association;
 - iii. represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);
 - iv. confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
 - v. agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- vi. (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider under the **White Form eIPO** service;
- vii. (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- viii. (if you are an agent for another person) warrant reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or to give electronic application instructions as that other person's agent;
- ix. agree that once your application is accepted, your application will be evidenced by the results of allocations of the Hong Kong Public Offering made available by our Company;
- x. undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up or indicated an interest for, and will not apply for, take up or indicate an interest for any International Offer Shares nor otherwise participate in the International Offering;
- xi. warrant the truth and accuracy of the information contained in your application;
- xii. represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S);
- xiii. agree to disclose to our Company, and/or its Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and their respective advisors and agents any personal data and information which they require about you or the person(s) for whose benefit you have made the application;
- xiv. agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- xv. undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application;
- xvi. authorize our Company to place your name(s) or HKSCC Nominees, as the case may be, on our Company's register of members as the holder(s) in Hong Kong of any Hong Kong Offer Shares allocated to you, and our Company and/or our Company's agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post to the address stated on your Application Form at your own risk (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form that your wish to collect your refund cheque and Share certificates (where applicable) in person);
- xvii. authorize our Company to dispatch e-Refund payment instructions to the application payment account if you have completed payment of the **White Form eIPO** application monies from a single bank account; or authorize our Company to issue and dispatch refund cheque(s) to the address given on the **White Form eIPO** application if you have completed payment of the application monies from multiple bank accounts;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- xviii. agree that the processing of your application, may be done by any of our Company's receiving banks and is not restricted to the bank at which your Application Form is lodged;
 - xix. confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
 - xx. understand that these declarations and representations will be relied upon by our Company and the Sole Global Coordinator in deciding whether or not to allocate any Offer Shares in response to your application;
 - xxi. if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
 - xxii. agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each Shareholder of our Company) (and if applicable, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Memorandum of Association and the Articles of Association;
 - xxiii. agree with our Company and each Shareholder, and our Company agrees with each of our Company's Shareholders, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
 - xxiv. agree with our Company and each Shareholder that the Shares are freely transferable by the holders thereof;
 - xxv. authorize our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to Shareholders as stipulated in the Memorandum of Association and Articles of Association;
 - xxvi. agree that our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters and any of their respective directors, officers, employees, agents or advisors and any parties involved in the Global Offering are liable only for the information and representations contained in the prospectus and any supplement thereto (and only then to the extent such liability is held to exist by a court with competent jurisdiction);
 - xxvii. agree that our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Hong Kong Underwriters and the Directors are liable only for the information and representations contained in this prospectus and any supplement thereto; and
 - xxviii. agree to disclose to our Company, our Company's Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and their respective advisors and agents any personal data and any other information which they require about you or the person(s) for whose benefit you have made the application.
- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee agree that:
- i. the Hong Kong Offer Shares to be allocated to you shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant;
 - ii. each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC

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- Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your (or, if you are a joint applicant, to the first-named applicant's) name and in such a case, to post the Share certificate(s) for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
- iii. each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - iv. neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
 - v. neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things and neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- i. instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - ii. instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the Offer Price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account;
 - iii. (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) HKSCC Nominees is only acting as nominee for the applicants and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus. In addition to the confirmations and agreements set out in paragraph (a) above, instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - a. agree that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on your behalf or for your CCASS Investor Participant stock account;
 - b. undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - c. (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - d. (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;
 - e. understand that the above declaration will be relied upon by our Company, the Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- f. authorize our Company to place the name of HKSCC Nominees on the Hong Kong register of members of our Company as the holder(s) of the Hong Kong Offer Shares allotted in respect of your **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- g. confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them; and are aware of the restrictions on the Hong Kong Public Offering described in this prospectus;
- h. confirm that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;
- i. agree (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- j. agree that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- k. agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of allocations of the Hong Kong Public Offering published by our Company;
- l. agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
- m. agree with our Company, for itself and for the benefit of each of the Shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders of our Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and our Memorandum of Association and Articles of Association.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (d) Our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (e) In the event of this application being made by joint application, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally. You may be prosecuted if you make a false declaration.

5. MULTIPLE APPLICATIONS

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form, you:
 - i. (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider under the **White Form eIPO** service;
 - ii. (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application; and
 - iii. (if you are an agent for another person) warrant reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or to give electronic application instructions as that other person's agent.
- (b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together:
 - i. make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk);
 - ii. both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk);
 - iii. apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk) for more than 44,250,000 Shares, being 50% of Hong Kong Offer Shares initially being offered in the Hong Kong Public Offering; or
 - iv. have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions** or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk)). If an application is made by an unlisted company and
- i. the principal business of that company is dealing in securities; and
 - ii. you exercise statutory control over that company,
- then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you or your application is liable to be rejected:

(a) If your application is revoked

By completing and submitting an Application Form or **electronic application instruction** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the **White Form eIPO** Service Provider via the **White Form eIPO** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the publication of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) If our Company, the Sole Global Coordinator or their respective agents exercise their discretion to reject your application

Our Company, the Sole Global Coordinator (as agents of our Company) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application without having to give any reasons for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares is void

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- i. within three weeks from the closing of the application lists; or
- ii. within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) In the following circumstances

- i. you make multiple applications or suspected multiple applications;
- ii. the application for Shares is not one of the numbers set out in the table in the Application Form;
- iii. your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- iv. your payment is not made correctly;
- v. you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;
- vi. you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allotted (including conditionally and/or provisionally) Hong Kong Offer Shares and/or International Offer Shares. By filling in any of the **WHITE** or **YELLOW** Application Forms or applying by giving **electronic application instructions** to HKSCC or the designated **White Form eIPO** Service Provider under the **White Form eIPO** service, you agree not to apply for Hong Kong Offer Shares as well as the International Offer Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- vii. our Company and the Sole Global Coordinator believe that by accepting your application they would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and signed;
- viii. your application is for more than 50% of the Hong Kong Offer Shares initially being offered in the public for subscription;
- ix. the Underwriting Agreements do not become unconditional; or

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

x. the Underwriting Agreements are terminated in accordance with their respective terms.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

Our Company will not issue temporary documents of title. No receipt will be issued for sums paid on application.

You will receive one Share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS, in which case Share certificates will be deposited directly into CCASS).

Share certificates will only become valid certificates of title at around 8:00 a.m. on Thursday, March 24, 2011, provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the paragraph headed “Hong Kong Public Offering – Grounds for termination” under the section in this prospectus entitled “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

(a) If you apply using a **WHITE** Application Form

If you have applied for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your Share certificate(s) and/or refund cheque (where applicable) from Computershare Hong Kong Investor Services Limited (where applicable) and have provided all information required by your Application Form, you may collect them in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, March 23, 2011 or such other place and date as notified by our Company in the newspapers as the place and date of despatch/collection of e-Refund payment instructions/refund cheque(s)/share certificate(s).

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. You must produce evidence of identity (which must be acceptable to Computershare Hong Kong Investor Services Limited) to collect each Share certificate. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Such authorized representatives must produce at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your Share certificate(s) and/or refund cheque (where applicable) personally within the time specified for collection, they will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or if you have applied for 1,000,000 or more Hong Kong Offer Shares but have not indicated on your Application Form that you wish to collect your Share certificate(s) and/or refund cheque (where applicable) in person, then your Share certificate(s) and/or refund cheque (where applicable) will be sent to the address on the Application Form on or around Wednesday, March 23, 2011, by ordinary post and at your own risk.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(b) If you apply using a YELLOW Application Form

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in the Application Form on Wednesday, March 23, 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form, for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of the CCASS Investor Participants applications, together with the results of the Hong Kong Public Offering in the manner described in “How to Apply for Hong Kong Offer Shares – III. Publication of results, dispatch/collection of Share certificates and refunds of application monies”. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, March 23, 2011, or and other date as shall be determined by HKSCC or HKSCC Nominees.

Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (if any) in person, you should follow the same procedure as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on the Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

(c) If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an **White Form eIPO** instruction to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) (where relevant) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, March 23, 2011, or such other dates as notified by our Company in the newspapers as the date of dispatch/collection of Share certificate(s)/e-Refund payment instructions/refund cheque(s).

If you do not collect your Share certificate(s) in person within the time specified for collection, it/they will be dispatched promptly to you by ordinary post to the address as specified in the application instructions to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where relevant) will be dispatched promptly to you by ordinary post to the address as specified in the application instructions to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk at your own risk.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being less than the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be dispatched to the application payment account on or around Wednesday, March 23, 2011.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being less than the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on or around Wednesday, March 23, 2011, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the **White Form eIPO** Service Provider set out below in “– 9. Additional Information for Applicants Applying by Giving **Electronic Application Instructions** to HKSCC.”

8. REFUND OF APPLICATION MONIES

If your application is unsuccessful (in whole), or if you do not receive any Hong Kong Offer Shares for any of the reasons set out under the paragraph headed “– 6. Circumstances in which you will not be allotted Hong Kong Offer Shares” of this section of this prospectus, our Company will refund to you your application monies, including the related brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the initial offer price per Share (excluding brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1.0%, the SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005% without interest. All such interest accrued on such monies prior to the date of dispatch of refund cheques will be retained for the benefit of our Company. In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund cheques will be crossed “Account Payee Only” and made out to you, or, if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number (or, in the case of joint applicants part of the Hong Kong identity card number/passport number of the first-named applicant) provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verifications for your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment or may invalidate, your refund cheque.

It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of Share certificates into CCASS and refund of application monies

- i. No temporary document of title will be issued. No receipt will be issued for sums paid on application.
- ii. If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or to your CCASS Investor Participant stock account on Wednesday, March 23, 2011, or, on such other date as shall be determined by HKSCC or HKSCC Nominees.
- iii. Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong Business Registration number for corporations, as the case may be) and the basis of allotment of the Hong Kong Public Offering in the manner described in the section headed “How to Apply for Hong Kong Offer Shares – Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies” above on Wednesday, March 23, 2011.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, March 23, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- i. If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- ii. If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, March 23, 2011. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- iii. Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or a difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, March 23, 2011. No interest will be paid thereon.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

10. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING THROUGH WHITE FORM eIPO

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in “– 8. Refund of Application Monies” shall be made pursuant to the arrangements described above in “– 7. If your application for Hong Kong Offer Shares is successful (in whole or in part) – (c) If you apply through **White Form eIPO**”.

11. PERSONAL DATA

This Personal Information Collection Statement informs the applicant for and holder of Hong Kong Offer Shares of the policies and practices of our Company and our Company’s Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected and delay or the inability of our Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of the Share certificate(s), and/or the dispatch of e-Refund payment instructions/ refund cheque(s) to which you are entitled.

It is important that holders of securities inform us and our Company’s Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purpose

The personal data of the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- i. processing of your application and e-Refund payment instructions/refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- ii. enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- iii. registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- iv. maintaining or updating the registers of holders of securities of our Company;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- v. conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- vi. establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- vii. distributing communications from our Company and our subsidiaries;
- viii. compiling statistical information and shareholder profiles;
- ix. making disclosures as required by laws, rules or regulations;
- x. disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- xi. disclosing relevant information to facilitate claims on entitlements; and
- xii. any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by our Company and the Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and our Company's Hong Kong Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- i. our Company or our appointed agents such as financial advisors and receiving banks and overseas principal registrars;
- ii. where applicants for securities request deposit into CCASS, to HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- iii. any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company or the Hong Kong Share Registrar in connection with the operation of their respective businesses;
- iv. any regulatory or governmental bodies (including the Hong Kong Stock Exchange and the SFC); and
- v. any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

(d) Access to and correction of personal data

The Personal Data (Privacy) Ordinance provides the holders of securities with rights to ascertain whether our Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Personal Data (Privacy) Ordinance, our Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the "Corporate Information" section in this prospectus or as notified from time to time in accordance with applicable law, for the attention of our company secretary, or our Company's Hong Kong Share Registrar for the attention of the privacy compliance officer.

By signing an Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, you agree to all of the above.

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, for the purpose of incorporation in this prospectus.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

14 March 2011

The Directors
China Hongqiao Group Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to China Hongqiao Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 (the “Track Record Period”) for inclusion in the prospectus of the Company dated 14 March 2011 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 9 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a group reorganisation, as more fully explained in the section headed “Reorganisation” in the Appendix VI to the Prospectus (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 15 March 2010.

Throughout the Track Record Period and as at the date of this report, the Company had the following subsidiaries:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at				Date of this report	Principal activity
			31 December 2007	31 December 2008	31 December 2009	30 September 2010		
			%	%	%	%	%	
China Hongqiao Investment Limited (“Hongqiao Investment”)	British Virgin Islands (“BVI”) 5 February 2010	US\$200	-	-	-	100	100	Investment holding
Hongqiao Investment (Hong Kong) Limited (“Hongqiao Hong Kong”)	Hong Kong 18 February 2010	HK\$10,100	-	-	-	100	100	Investment holding
山東宏橋新材料有限公司 (Shandong Hongqiao New Material Co., Ltd.) (note i) (“Shandong Hongqiao”) (Formerly known as “山東位橋染織有限公司”)	The People’s Republic of China (“PRC”) 27 July 1994	US\$110,000,000	98 (note ii)	98 (note ii)	98 (note ii)	100 (note ii)	100 (note ii)	Manufacture and sales of aluminum products (note iii)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at				Date of this report	Principal activity
			31 December 2007	31 December 2008	31 December 2009	30 September 2010		
			%	%	%	%	%	
山東魏橋鋁電有限公司 (Shandong Weiqiao Aluminum Power Co., Ltd.) (note i) ("Aluminum & Power")	PRC 25 December 2002	RMB5,000,000,000	100	100	100	100	100	Manufacture and sales of aluminum products (note iv)
濱州海洋化工有限公司 (Binzhou Marine Chemical Co., Ltd.) (notes i and v) ("Marine Chemical")	PRC 2 March 2006	RMB600,000,000	100	100	100	-	-	Manufacture and sales of caustic soda products (the "Marine Chemical Business")
濱州市政通新型鋁材有限公司 (Binzhou Zhengtong New Aluminum Profiles Co., Ltd.) (notes i, vi and vii) ("Zhengtong")	PRC 20 May 2008	RMB200,000,000	-	-	-	100	100	Manufacture and sales of aluminum materials

Notes:

- (i) The English names of these companies are for reference only and have not been registered.
- (ii) The remaining 2% equity interest of Shandong Hongqiao was previously held by 山東魏橋創業集團有限公司 ("Chuangye Group", see Note 36(a)(ii) of section B for its relationship with the Group) and was transferred to Hongqiao Hong Kong in March 2010 as disclosed in Note 1 in section B.
- (iii) Shandong Hongqiao was engaged in the business of manufacture and sales of dyed fabric and yarn-dyed denim (the "Dyeing Business") for the period from 1 January 2007 to 4 January 2010, the date when such business was discontinued (see Note 12). Since 4 January 2010, it is engaged in the business of manufacture and sales of aluminum products.
- (iv) Aluminum & Power also acted as an agent for the manufacture and sale of alumina for Chuangye Group ("Alumina Agency Business") for the period from 1 January 2007 to 31 December 2009, the date when such business was discontinued (see Note 12).
- (v) Marine Chemical was disposed of during the nine months ended 30 September 2010. Its assets and liabilities were classified as held for sale as at 31 December 2009 and its business was treated as discontinued operation during the Track Record Period (see Note 12).
- (vi) During the year ended 31 December 2008, the Group held 20% equity interest of Zhengtong from its date of establishment to July 2008 before it was disposed of to an independent third party at cost. The holding of such investment had no material financial impact to the Group as Zhengtong had not commenced business at the time.
- (vii) 100% equity interest of Zhengtong was acquired in March 2010 (see Note 32).

Other than Hongqiao Investment, all subsidiaries are indirectly held by the Company.

The financial year end date of all the companies now comprising the Group is 31 December.

No audited financial statements have been prepared for the Company and Hongqiao Investment since their incorporation as there is no statutory audit requirement in Cayman Islands and BVI. No audited financial statements have been prepared for Hongqiao Hong Kong since its incorporation.

For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company, Hongqiao Investment and Hongqiao Hong Kong since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

The statutory financial statements of the Company's subsidiaries established in the PRC were prepared in accordance with the relevant accounting policies and financial regulations in the PRC (the "PRC GAAP"). They were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	Financial year/period	Name of auditors
Shandong Hongqiao	Financial year ended 31 December 2007, 2008 and 2009	山東鑾鑫會計師事務所有限公司 (Shandong Jianxin Certified Public Accountants Limited) (note i)
Aluminum & Power	Financial year ended 31 December 2007, 2008 and 2009	山東鑾鑫會計師事務所有限公司 (Shandong Jianxin Certified Public Accountants Limited) (note i)
Marine Chemical	Financial year ended 31 December 2007, 2008 and 2009	山東鑾鑫會計師事務所有限公司 (Shandong Jianxin Certified Public Accountants Limited) (note i)

Notes:

- (i) English name is for identification purpose only.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs"). Deloitte Touche Tohmatsu CPA Ltd. has carried out an independent audit on the Underlying Financial Statements in accordance with International Standards on Auditing. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 of section B below to the Financial Information. No adjustments are considered necessary to the Underlying Financial Statements for the preparation of the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of section B below to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008, 2009 and 30 September 2010 and the state of affairs of the Company as at 30 September 2010, and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the nine months ended 30 September 2009 together with the notes thereon (the “September 2009 Financial Information”) have been extracted from the Group’s unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the September 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the HKICPA. Our review of the September 2009 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Nine months ended 30 September	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)						
CONTINUING OPERATIONS						
Revenue	5	4,508,281	8,772,162	8,668,428	6,182,196	10,546,533
Cost of sales		(3,117,879)	(8,238,706)	(7,769,098)	(5,831,209)	(6,503,743)
Gross profit		1,390,402	533,456	899,330	350,987	4,042,790
Other income and gain and loss . . .	6	75,306	178,649	97,216	94,763	153,059
Distribution and selling expenses . .		(10,911)	(52,849)	(40,961)	(31,788)	(15,994)
Administrative expenses		(42,070)	(83,734)	(92,335)	(62,470)	(75,552)
Finance costs	7	(55,970)	(193,018)	(89,243)	(65,388)	(130,797)
Other expenses	8	–	–	–	–	(19,693)
Profit before taxation	8	1,356,757	382,504	774,007	286,104	3,953,813
Income tax expense	11	(452,855)	(98,921)	(196,924)	(74,134)	(988,378)
Profit for the year/period from continuing operations		903,902	283,583	577,083	211,970	2,965,435
DISCONTINUED OPERATIONS						
Profit (loss) for the year/period from discontinued operations . . .	12	425,398	145,291	(9,441)	(28,682)	31,515
		<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Profit and total comprehensive income attributable to						
Owners of the Company		1,302,714	420,297	556,289	179,622	2,972,457
Non-controlling interests		26,586	8,577	11,353	3,666	24,493
		<u>1,329,300</u>	<u>428,874</u>	<u>567,642</u>	<u>183,288</u>	<u>2,996,950</u>
Earnings (loss) per share, in RMB						
From continuing and discontinued operations						
Basic	13	<u>0.26</u>	<u>0.08</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From continuing operations						
Basic	13	<u>0.18</u>	<u>0.06</u>	<u>0.11</u>	<u>0.04</u>	<u>0.59</u>
From discontinued operations						
Basic	13	<u>0.08</u>	<u>0.02</u>	<u>–</u>	<u>–</u>	<u>–</u>

STATEMENTS OF FINANCIAL POSITION

	Notes	The Group			The Company	
		At 31 December			At	At
		2007	2008	2009	30 September	30 September
		RMB'000	RMB'000	RMB'000	2010	2010
			RMB'000	RMB'000		
NON-CURRENT ASSETS						
Property, plant and equipment	15	4,537,656	6,122,810	5,591,784	7,743,761	–
Prepaid lease payments						
– non-current portion	16	11,027	10,798	–	83,744	–
Intangible assets	17	247,256	123,628	–	–	–
Investments in subsidiaries	37	–	–	–	–	3,195,812
Amount due from a subsidiary	37	–	–	–	–	64,325
Deferred tax assets	18	2,825	30,078	12,124	35,203	–
Deposits paid for acquisition of property, plant and equipment		605,709	532,096	312,889	294,302	–
		<u>5,404,473</u>	<u>6,819,410</u>	<u>5,916,797</u>	<u>8,157,010</u>	<u>3,260,137</u>
CURRENT ASSETS						
Inventories	19	759,832	743,988	548,360	864,309	–
Trade receivables	20	83,910	34,555	44,416	6,507	–
Bills receivable	21	1,150,562	1,645,045	763,370	907,534	–
Prepayments and other receivables	22	27,622	122,826	15,377	739,005	–
Amounts due from related parties	36(c)	230,011	160,067	153,756	–	–
Prepaid lease payments						
– current portion	16	229	229	–	1,813	–
Tax recoverable		–	74,726	97,790	–	–
Restricted bank deposits	23	193,311	195,615	760,646	–	–
Bank balances and cash	23	128,335	117,949	443,133	1,279,320	1,081
		<u>2,573,812</u>	<u>3,095,000</u>	<u>2,826,848</u>	<u>3,798,488</u>	<u>1,081</u>
Financial assets contracted for						
Alumina Production Business	36(b)(ii)	1,377,480	1,237,382	1,029,762	–	–
Assets classified as held for sale	12(B)	–	–	1,613,854	–	–
		<u>3,951,292</u>	<u>4,332,382</u>	<u>5,470,464</u>	<u>3,798,488</u>	<u>1,081</u>

	Notes	The Group			The Company	
		At 31 December			At	At
		2007	2008	2009	30 September	30 September
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT LIABILITIES						
Trade payables	24	714,623	992,734	394,346	371,205	–
Bills payable	25	20,000	100,000	310,000	–	–
Other payables	26	643,163	957,713	848,059	626,583	–
Amounts due to related parties . . .	36(c)	2,857,034	3,471,942	3,556,479	–	–
Amount due to a subsidiary	37	–	–	–	–	591
Income tax payable		36,609	–	–	545,619	–
Bank borrowings						
– due within one year	28	567,155	869,970	929,173	300,000	–
		4,838,584	6,392,359	6,038,057	1,843,407	591
Financial liabilities contracted for						
Alumina Production Business . . .	36(b)(ii)	2,085,006	1,488,847	1,105,843	–	–
Liabilities associated with assets						
classified as held for sale	12(B)	–	–	980,551	–	–
		6,923,590	7,881,206	8,124,451	1,843,407	591
NET CURRENT (LIABILITIES)						
ASSETS		(2,972,298)	(3,548,824)	(2,653,987)	1,955,081	490
TOTAL ASSETS LESS						
CURRENT LIABILITIES		2,432,175	3,270,586	3,262,810	10,112,091	3,260,627
CAPITAL AND RESERVES						
Paid-in capital/share capital	29	114,398	114,398	114,398	69	69
Reserves		1,993,557	2,413,854	2,970,143	6,079,191	3,188,727
Equity attributable to owners of						
the Company		2,107,955	2,528,252	3,084,541	6,079,260	3,188,796
Non-controlling interests		43,020	51,597	62,950	–	–
TOTAL EQUITY						
		2,150,975	2,579,849	3,147,491	6,079,260	3,188,796
NON-CURRENT LIABILITIES						
Other borrowings	28	–	–	–	71,831	71,831
Deferred income	27	11,200	11,200	–	–	–
Bank borrowings						
– due after one year	28	270,000	679,537	115,319	3,961,000	–
		281,200	690,737	115,319	4,032,831	71,831
		2,432,175	3,270,586	3,262,810	10,112,091	3,260,627

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Paid-in capital/ share capital	Capital reserve	Statutory surplus reserve	Retained earnings	Subtotal	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note iii)				
At 1 January 2007	114,398	-	35,729	655,114	805,241	16,434	821,675
Profit and total comprehensive income for the year . . .	-	-	-	1,302,714	1,302,714	26,586	1,329,300
Transfer to reserves	-	-	311,819	(311,819)	-	-	-
At 31 December 2007	114,398	-	347,548	1,646,009	2,107,955	43,020	2,150,975
Profit and total comprehensive income for the year . . .	-	-	-	420,297	420,297	8,577	428,874
Transfer to reserves	-	-	126,047	(126,047)	-	-	-
At 31 December 2008	114,398	-	473,595	1,940,259	2,528,252	51,597	2,579,849
Profit and total comprehensive income for the year . . .	-	-	-	556,289	556,289	11,353	567,642
Transfer to reserves	-	-	124,197	(124,197)	-	-	-
At 31 December 2009	114,398	-	597,792	2,372,351	3,084,541	62,950	3,147,491
Profit and total comprehensive income for the period . .	-	-	-	2,972,457	2,972,457	24,493	2,996,950
Issue of shares	1	-	-	-	1	-	1
Capitalization of retained earnings	656,758	-	-	(656,758)	-	-	-
Reorganisation (note i)	(771,088)	771,088	-	-	-	-	-
Acquisition of additional interests in a subsidiary (note ii)	-	22,261	-	-	22,261	(87,443)	(65,182)
At 30 September 2010	69	793,349	597,792	4,688,050	6,079,260	-	6,079,260
For the nine months ended 30 September 2009 (unaudited)							
At 1 January 2009	114,398	-	473,595	1,940,259	2,528,252	51,597	2,579,849
Loss and total comprehensive income for the period . .	-	-	-	179,622	179,622	3,666	183,288
At 30 September 2009	114,398	-	473,595	2,119,881	2,707,874	55,263	2,763,137

Notes:

- (i) As part of the Reorganisation set out in Note 1, Hongqiao Hong Kong acquired 100% interest in Shandong Hongqiao in March 2010 and the Company became the holding company of the Group. The amount payable of RMB3,193,921,000 by the Group to its then shareholders, Profit Long Investment Limited, for the acquisition of the 98% interest in Shandong Hongqiao is regarded as a deemed distribution to shareholders since the Financial Information has been prepared as if the Company had been the holding company of Shandong Hongqiao throughout the Track Record Period. The amount was subsequently settled in April 2010 by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings which was effected through a deed of assignment of receivables and a share subscription agreement as disclosed in the section headed "History and Reorganisation" in the prospectus.
- (ii) The amount of RMB22,261,000 credited under capital reserve represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the 2% interest in Shandong Hongqiao being acquired from Chuangye Group, its then non-controlling shareholder, as set out in Note 1.
- (iii) In accordance with the Articles of Association of all subsidiaries established in the PRC, those subsidiaries are required to transfer 5% to 10% of the profit after taxation reported under 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 STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit for the year/period	1,329,300	428,874	567,642	183,288	2,996,950
Adjustments for:					
Interest income	(2,100)	(4,794)	(8,808)	(7,584)	(7,356)
Income tax expense	733,915	185,174	233,748	97,769	988,378
Finance costs	61,788	193,018	106,824	78,495	130,797
Depreciation of property, plant and equipment . . .	154,184	318,765	415,807	297,126	429,789
Amortisation of intangible assets	123,628	123,628	123,628	92,721	–
Amortisation of prepaid lease payments	191	229	569	–	719
Loss on disposal of property, plant and equipment .	7,342	454	555	555	–
Gain on disposal of a subsidiary	–	–	–	–	(6,620)
Gain on disposal of Dyeing Business	–	–	–	–	(24,895)
Release of deferred income in relation to government grants	–	–	(1,145)	–	–
Allowance for bad and doubtful debts	24,371	–	–	–	–
Impairment loss recognised on inventories	–	90,515	–	–	–
Operating cash flows before movements in working capital	2,432,619	1,335,863	1,438,820	742,370	4,507,762
(Increase) decrease in inventories	(427,234)	(74,671)	128,209	(79,915)	(317,932)
(Increase) decrease in receivables, deposits and prepayments	(1,948,902)	(385,757)	1,113,621	705,114	65,576
Increase (decrease) in payables, deposits received and accrued charges	1,818,367	565,042	(518,388)	(845,179)	(1,387,874)
Cash generated from operations	1,874,850	1,440,477	2,162,262	522,390	2,867,532
Income tax paid	(731,490)	(323,762)	(238,687)	–	(368,049)
Net cash generated from operating activities	1,143,360	1,116,715	1,923,575	522,390	2,499,483
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(2,185,603)	(1,224,095)	(318,171)	(116,491)	(1,866,331)
Addition to prepaid lease payments	(11,447)	–	(39,754)	–	(51,594)
Proceeds on disposal of property, plant and equipment	5,821	3,797	944	571	1
Deposit for acquisition of property, plant and equipment	(993,814)	(580,965)	(531,980)	(308,327)	(485,816)
Acquisition of a subsidiary (Note 32).	–	–	–	–	(176,013)
Government grants received	11,200	–	–	–	–
Interest received	2,100	4,794	8,808	7,584	7,356
Disposal of a subsidiary (Note 33)	–	–	–	–	514,188
Decrease (increase) in restricted bank deposits . . .	(150,811)	(2,304)	(592,537)	(365,714)	760,646
Net cash used in investing activities	(3,322,554)	(1,798,773)	(1,472,690)	(782,377)	(1,297,563)

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
FINANCING ACTIVITIES					
New bank borrowings raised	1,309,810	1,646,273	1,256,508	1,077,804	4,261,000
Repayment of bank borrowings	(520,655)	(901,071)	(1,084,373)	(854,110)	(1,093,492)
Issue of shares	–	–	–	–	1
Acquisition of additional interests in a subsidiary	–	–	–	–	(65,182)
Interest paid	(87,407)	(222,515)	(126,610)	(93,189)	(130,797)
Advance from related parties	7,235,260	5,829,077	8,872,087	6,144,833	4,470,837
Repayment to related parties	(5,667,471)	(5,680,092)	(8,957,501)	(5,520,477)	(7,965,743)
New other borrowings raised	–	–	–	–	71,831
Net cash from (used in) financing activities	<u>2,269,537</u>	<u>671,672</u>	<u>(39,889)</u>	<u>754,861</u>	<u>(451,545)</u>
Net increase (decrease) in cash and cash equivalents	90,343	(10,386)	410,996	494,874	750,375
Cash and cash equivalents at beginning of the year/period	<u>37,992</u>	<u>128,335</u>	<u>117,949</u>	<u>117,949</u>	<u>528,945</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u><u>128,335</u></u>	<u><u>117,949</u></u>	<u><u>528,945</u></u>	<u><u>612,823</u></u>	<u><u>1,279,320</u></u>
Comprised of:					
Cash and cash equivalents	128,335	117,949	443,133	612,823	1,279,320
Cash and cash equivalents classified as assets held for sale	–	–	85,812	–	–
Total cash and cash equivalents	<u><u>128,335</u></u>	<u><u>117,949</u></u>	<u><u>528,945</u></u>	<u><u>612,823</u></u>	<u><u>1,279,320</u></u>

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands on 9 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its parent and ultimate holding company is China Hongqiao Holdings Limited (“Hongqiao Holdings”), incorporated in the BVI. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, KY1-1112, Cayman Islands, and its principal place of business is located at Huixian One Road, Zouping Economic Development District, Zouping County, Shandong Province, PRC. The Company is an investment holding company.

Prior to the Reorganisation, the operations of manufacture and sales of aluminum products and other businesses were carried out by Shandong Hongqiao and its subsidiaries. Shandong Hongqiao and its subsidiaries were also engaged in the Dyeing Business, Marine Chemical Business and Alumina Agency Business which were discontinued since 4 January 2010, 1 January 2010 and 31 December 2009, respectively, and the details of which are explained further in Note 12.

Pursuant to the Reorganisation in March 2010, (1) the Company was incorporated and owned by Hongqiao Holdings, (2) Hongqiao Investment and Hongqiao Hong Kong were also incorporated and became subsidiaries of the Company and (3) Profit Long Investment Limited (“Profit Long Investment”) and Chuangye Group transferred their equity interest of 98% and 2% in Shandong Hongqiao to Hongqiao Hong Kong for a consideration of RMB3,193,921,000 and RMB65,182,000, respectively, of which RMB65,182,000 was settled by cash and paid in March 2010 and RMB3,193,921,000 was settled by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings in April 2010, further details were disclosed in the section headed “History and Reorganisation” in the prospectus. The Company became the holding company of Shandong Hongqiao and its subsidiaries in March 2010. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if the Company had been the holding company of Shandong Hongqiao throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2007, 2008 and 2009 present the assets and liabilities of the companies now comprising the Group as at the respective dates as if the Company had been the holding company of Shandong Hongqiao at those dates. The 98% interests in Shandong Hongqiao held by Profit Long Investment, a company controlled by Mr. Zhang Shiping (“Mr. Zhang”) through trust arrangements entered into since 2006, whereby Mr. Zhang has nominated two persons to hold the entire equity interests in Profit Long Investment on his behalf, was accounted for as equity attributable to owners of the Company when Shandong Hongqiao was consolidated by the Group using the principle of merger accounting for business combination under common control during the Track Record Period. The remaining 2% interests in Shandong Hongqiao held by Chuangye Group was presented as non-controlling interests up to the date, when the 2% equity interest of Shandong Hongqiao was transferred to the Group as detailed in the preceding paragraph. Pursuant to certain share transfer arrangements entered into in February 2010, Mr. Zhang has become the legal owner of the entire equity interests in Profit Long Investment.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the group entities operate (the functional currency of group entities).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently applied International Accounting Standards (“IASs”), IFRSs, amendments and the related Interpretations (“IFRICs”), which are effective for the accounting period beginning on 1 January 2010 throughout the Track Record Period, except for IFRS 3 (revised 2008), which has been applied for business combination for which the acquisition date is on or after 1 January 2010 and IAS 27 (revised 2008) which has been applied for accounting period beginning on 1 January 2010.

At the date of this report, the following new and revised standards, amendments and interpretations have been issued which are not yet effective:

IFRSs

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
IAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ⁶
IAS 24 (Revised)	Related Party Disclosures ⁴
IAS 32 (Amendment)	Classification of Rights Issues ²
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ³
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ⁵
IFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets ⁵
IFRS 9	Financial Instruments ⁷
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 July 2011

⁶ Effective for annual periods beginning on or after 1 January 2012

⁷ Effective for annual periods beginning on or after 1 January 2013

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Basis of consolidation** – continued

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. From 1 January 2010, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations not under common control***Business combinations for which the acquisition date is prior to 1 January 2010***

The acquisition of subsidiaries, other than common control combinations, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations for which the acquisition date is on or after 1 January 2010

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Business combinations not under common control** – continued*Business combinations for which the acquisition date is on or after 1 January 2010* – continued

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date – and is subject to a maximum of one year.

The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Changes in the ownership interest in subsidiary after 1 January 2010, that do not result in a loss of control**

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets'(disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when the services are provided.

Revenue from steam supply is recognised when steam is provided.

Deposits received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Property, plant and equipment** – continued

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expenses on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency, i.e. RMB).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognised in profit or loss for the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefits scheme under the state-managed retirement benefit schemes in PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Taxation** – continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the period when the asset is derecognized.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials other than coal and alumina is calculated using the first-in, first-out method while cost of coal, alumina and other inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Impairment of tangible and intangible assets – continued**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loan and receivables. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, amounts due from related parties, restricted bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on loans and receivables below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, of which interest income is included in other income.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Financial instruments** – continued*Financial assets* – continued*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment for loan and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Financial instruments** – continued*Financial liabilities and equity* – continued*Effective interest method* – continued

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank and other borrowings, trade payables, bills payable, other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, the resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of receivables

Trade receivables and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued**Estimated impairment of receivables** – continued

In making the estimates, management considered detailed procedures have been in place to monitor this risk. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, 2008, 2009 and 30 September 2010, the carrying amount of trade and other receivables excluded those contracted for Alumina Production Business are approximately RMB1,247,137,000, RMB1,693,733,000, RMB866,922,000 and RMB918,537,000. Details of movements of allowance for trade receivables and other receivables are disclosed in Notes 12, 20, 21 and 22 respectively.

Estimated impairment of inventories

The Group's management assesses periodically whether the inventories have been suffered from any impairment based on estimate on the net realizable value of the inventory. For different types of inventories, it requires the exercise of accounting estimates on selling price, costs of conversion, selling expenses and related tax expense to calculate its net realizable value. It is reasonably possible that outcomes would be significantly affected if there is a significant change in circumstances, including the Group's business and the external environment.

An impairment loss of RMB90,515,000 was recognised in 2008 due to the significant adverse change in circumstances as disclosed in Note 8. As at 31 December 2007, 2008, 2009 and 30 September 2010, the carrying amount of inventories are approximately RMB759,832,000, RMB743,988,000, RMB615,779,000 and RMB864,309,000 as disclosed in Notes 12 and 19.

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 15. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount. At the end of each reporting period, no property, plant and equipment was impaired based on the impairment assessment performed by management. It is possible that actual outcomes may be different from assumptions, having a material impact on the carrying amount of property, plant and equipment in the period when such estimate is revised.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued**Impairment of property, plant and equipment** – continued

At 31 December 2007, 2008, 2009 and 30 September 2010, the directors of the Company are satisfied that there is no indication that property, plant and equipment has suffered an impairment loss. As at 31 December 2007, 2008, 2009 and 30 September 2010, the carrying amount of property, plant and equipment are approximately RMB4,537,656,000, RMB6,122,810,000, RMB6,794,648,000 and RMB7,743,761,000 as disclosed in Notes 12 and 15.

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of aluminum products. During the Track Record Period, the Group was also engaged in Dyeing Business, Marine Chemical Business and Alumina Agency Business, the results of such businesses were presented as discontinued operations during the Track Record Period as disclosed in Note 12.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the board of directors, the Group's chief operating decision maker for the purpose of resource allocation and assessment of performance, includes only revenue analysis by products and does not contain gross profit information of each product line and the board of directors reviewed the gross profit of the Group as a whole reported under PRC GAAP, the segment result, which has no significant differences as compared with gross profit reported under IFRS. It was determined that the Group has only one single reportable segment, being the manufacture and sales of aluminum products. As a result, no segment information other than the entity-wide disclosure is presented.

The Group's revenue from continuing operations represents the amount received and receivable for sale of aluminum products and steam supply during the Track Record Period.

5. REVENUE AND SEGMENT INFORMATION – continued

An analysis of the Group's revenue from continuing and discontinued operations is as follows:

	Continuing operations						Discontinued operations						Total						
	Year ended 31 December			Nine months ended 30 September			Year ended 31 December			Nine months ended 30 September			Year ended 31 December			Nine months ended 30 September			
	2007	2008	2009	2009	2010	2007	2008	2009	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from				(unaudited)								(unaudited)						(unaudited)	
Sales of goods																			
Aluminum products																			
– molten aluminum																			
– alloy	2,920,143	4,953,308	5,334,467	3,591,062	8,439,818	–	–	–	–	–	–	–	–	2,920,143	4,953,308	5,334,467	3,591,062	8,439,818	
– aluminum																			
– alloy ingots	1,588,138	3,818,854	3,243,692	2,550,205	1,525,814	–	–	–	–	–	–	–	–	1,588,138	3,818,854	3,243,692	2,550,205	1,525,814	
– aluminum bushbars	–	–	902,699	40,929	667,866	–	–	–	–	–	–	–	–	–	–	902,699	40,929	–	66,786
Dyed fabric and yam-dyed																			
denim products	–	–	–	–	–	132,772	–	1,344	–	–	–	–	–	132,772	–	1,344	–	–	
Caucic soda products	–	–	–	–	–	–	–	248,533	–	–	–	–	–	–	–	248,533	–	–	
Steam supply income	–	–	–	–	514,115	–	–	–	–	–	–	–	–	–	–	–	–	–	
Rendering of services																			
Management fee	–	–	–	–	–	900,314	362,889	154,982	–	–	–	–	–	900,314	362,889	154,982	–	–	
income	4,508,281	8,772,162	8,668,428	6,182,196	10,546,533	1,033,086	362,889	404,859	1,033,086	362,889	404,859	185,174	–	5,541,367	9,135,051	9,073,287	6,367,370	10,546,533	

All external revenues of the Group during the Track Record Period are contributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC.

5. REVENUE AND SEGMENT INFORMATION – continued

Revenue from customers from continuing operations contributing over 10% of the total revenue of the Group during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Customer A	1,980,398	2,114,345	1,737,187	1,320,267	2,351,485
Customer B	190,277	1,350,159	1,213,924	1,070,825	4,377,420
Customer C	148,449	1,080,801	497,347	493,049	58,115
Customer D	–	–	1,180,138	295,384	–

Revenue from Chuangye Group arising from the Alumina Agency Business contributed to 16% of the total sales of the Group for the year ended 31 December 2007 and accounted for less than 10% of the Group's total revenue during each of the year ended 31 December 2008, 2009 and the nine months ended 30 September 2009.

6. OTHER INCOME AND GAIN AND LOSS

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Continuing operations					
Interest income	1,580	3,327	8,714	7,427	7,356
Net gain (loss) on sales of raw materials (<i>note</i>)	10,564	36,613	(26,340)	2,827	15,320
Revenue from sales of slag of carbon anode blocks	31,554	88,130	97,835	75,414	104,567
Rental income	200	223	202	98	27
Foreign exchange gains (losses), net	18,839	27,214	(1,191)	(1,245)	(1,969)
Others	12,569	23,142	17,996	10,242	27,758
	75,306	178,649	97,216	94,763	153,059

6. OTHER INCOME AND GAIN AND LOSS – continued

Note:

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

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from sales of raw materials					
– coal	–	716,768	432,881	218,112	–
– carbon anode blocks	36,197	–	–	–	–
– cryolite	20,559	–	–	–	–
– other materials and accessories	16,581	14,414	29,609	10,882	17,644
Expenses related to sales of raw materials	(62,773)	(694,569)	(488,830)	(226,167)	(2,324)
	<u>10,564</u>	<u>36,613</u>	<u>(26,340)</u>	<u>2,827</u>	<u>15,320</u>

7. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Continuing operations					
Interest expenses on bank borrowings					
– wholly repayable within five years	30,489	113,967	42,383	36,819	130,797
Interest expenses on payable to a related party (Note 36(c))	25,481	74,010	38,505	19,424	–
Other interest expenses reimbursed to a supplier (Note 21(i)).	–	5,041	8,355	9,145	–
	<u>55,970</u>	<u>193,018</u>	<u>89,243</u>	<u>65,388</u>	<u>130,797</u>

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Continuing operations				Discontinued operations				Total			
	Year ended 31 December		Nine months ended 30 September		Year ended 31 December		Nine months ended 30 September		Year ended 31 December		Nine months ended 30 September	
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries	116,081	222,861	191,066	173,652	12,082	8	11,982	4,419	128,163	222,869	203,048	173,652
Retirement benefit schemes contributions	13,263	12,664	14,823	9,966	351	-	384	325	13,614	12,664	15,207	9,966
Total staff costs	129,344	235,525	205,889	183,618	12,433	8	12,366	4,744	141,777	235,533	218,255	183,618
Auditors' remuneration	60	65	100	120	42	41	80	20	102	106	180	633
Depreciation of property, plant and equipment	151,556	318,014	392,594	429,789	2,628	751	23,213	9,585	154,184	318,765	415,807	429,789
Amortisation of intangible assets (included in cost of sales)	11,743	11,743	11,743	8,807	111,885	111,885	111,885	83,914	123,628	123,628	123,628	92,721
Loss on disposal of property, plant and equipment (included in administrative expenses)	-	260	555	-	7,342	194	-	-	7,342	454	555	-
Cost of inventories recognised as an expense	3,020,832	8,164,604	7,713,107	6,439,601	128,789	-	237,631	88,320	3,149,621	8,164,604	7,950,738	6,439,601
Impairment loss recognised on inventories (included in cost of sales)	-	90,515	-	-	-	-	-	-	-	90,515	-	-
Amortisation of prepaid lease payments	-	-	-	719	191	229	569	-	191	229	569	719
Allowance for bad and doubtful debts (included in administrative expenses)	-	-	-	-	24,371	-	-	-	24,371	-	-	-
Government grants credited to income	-	-	-	-	-	-	(1,145)	-	-	-	(1,145)	-
Other expenses (Note)	-	-	-	19,693	-	-	-	-	-	-	-	19,693

Note: Other expenses mainly included listing expenses.

9. DIRECTORS' EMOLUMENTS

Details of emoluments paid to the directors of the Company during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Executive directors and independent non-executive directors					
– Salaries and other allowances	–	–	–	–	92
– Retirement benefits scheme contributions	–	–	–	–	6
Non-executive directors					
– Salaries and other allowances	45	48	47	31	39
– Retirement benefits scheme contributions	10	10	10	3	3
	<u>55</u>	<u>58</u>	<u>57</u>	<u>34</u>	<u>140</u>
Executive directors					
Mr. Zhang	–	–	–	–	18
Zheng Shuliang	–	–	–	–	22
Zhang Bo	–	–	–	–	31
Qi Xingli	–	–	–	–	27
Non-executive directors					
Yang Congsen	55	58	57	34	42
Zhang Jinglei	–	–	–	–	–
Independent non-executive directors					
Xing Jian	–	–	–	–	–
Chen Yinghai	–	–	–	–	–
Han Benwen	–	–	–	–	–
	<u>55</u>	<u>58</u>	<u>57</u>	<u>34</u>	<u>140</u>

All the executive directors and Mr. Zhang Jinglei hold certain positions in Chuangye Group or its subsidiaries and their remuneration were borne by Chuangye Group or its subsidiary for each of the three years ended 31 December 2009 and up to certain dates as disclosed below. It is not practical to allocate their remuneration to the Group and Chuangye Group and its subsidiaries.

As represented by the management of the Company, Ms. Zheng Shuliang (“Ms. Zheng”), Mr. Zhang Bo and Mr. Qi Xingli began to receive their emoluments from Shandong Hongqiao since April 2010 and Mr. Zhang began to receive his emolument from Shandong Hongqiao since June 2010 and Mr. Zhang Jinglei will start to receive his emolument from Shandong Hongqiao upon the listing of the Company’s shares on the Stock Exchange (the “Listing”).

10. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the Track Record Period included one director for each of the year ended 31 December 2007, 2008, 2009 and the nine months ended 30 September 2009 and 2010, details of his emoluments are set out above. The emoluments of the remaining four individuals for each of the year ended 31 December 2007, 2008, 2009 and the nine months ended 30 September 2009 and 2010 are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and other allowances	175	189	183	140	231
Retirement benefits scheme contributions	38	40	41	10	15
	<u>213</u>	<u>229</u>	<u>224</u>	<u>150</u>	<u>246</u>

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

11. INCOME TAX EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Continuing operations					
The charge comprises:					
Current tax					
Enterprise income tax in Mainland China	455,680	126,174	178,970	78,638	1,010,832
Under provision in prior years	–	–	–	–	625
Deferred tax (credit) charge (<i>Note 18</i>)	(2,825)	(27,253)	17,954	(4,504)	(23,079)
	<u>452,855</u>	<u>98,921</u>	<u>196,924</u>	<u>74,134</u>	<u>988,378</u>

The tax charge for the Track Record Period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries established in the PRC.

11. INCOME TAX EXPENSES – continued

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises. Prior to the New EIT Law, the subsidiaries in the PRC were subject to statutory income tax rate of 33%. In addition, the New 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 Company and its subsidiaries incorporated in BVI and Hong Kong had no assessable profits since their incorporation.

The income tax expense for the Track Record Period relating to continuing operations can be reconciled to the profit before taxation from continuing operations per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation from continuing operations	1,356,757	382,504	774,007	286,104	3,953,813
Tax at the applicable income tax rate (2007: 33%, 2008, 2009 and nine months ended 30 September 2010: 25%)	447,730	95,626	193,502	71,526	988,453
Tax effect of expenses not deductible	4,221	3,295	3,422	2,608	263
Tax effect of tax losses not recognised	–	–	–	–	1,329
Utilisation of tax losses previously not recognised .	–	–	–	–	(2,292)
Effect of change in tax rate . .	904	–	–	–	–
Under provision in respect of prior years	–	–	–	–	625
Tax charge for the year/period relating to continuing operations	452,855	98,921	196,924	74,134	988,378

The details of deferred tax for the Track Record Period are set out in Note 18.

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE**(A) Discontinued operations**

The Dyeing Business, Marine Chemical Business and Alumina Agency Business are discontinued and their results are presented as discontinued operations in the Financial Information:

- (a) On 28 December 2009, the Company's subsidiary, Shandong Hongqiao entered into a share transfer framework agreement with 山東慧濱棉紡漂染有限公司 ("Huibin Dyeing", a company controlled by Mr. Zhang), Marine Chemical, Profit Long Investment and Chuangye Group, to dispose of the entire equity interest of Marine Chemical to Huibin Dyeing. In accordance with the agreement, the power to govern the financial and operating activities of Marine Chemical was passed to Huibin Dyeing by Shandong Hongqiao from 1 January 2010 and the Group has since ceased its control over Marine Chemical and the share transfer agreement was signed subsequently on 25 February 2010 after Profit Long Investment completed its acquisition of the 100% equity interest of Huibin Dyeing, a condition precedent to completion of the transaction. Pursuant to the confirmation letter signed by Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group dated 1 January 2010, all the rights and obligations pertinent to the entire equity interest in Marine Chemical have been assumed by Huibin Dyeing. At 31 December 2009, the assets and liabilities of Marine Chemical are reclassified as assets and liabilities held for sale (see below (B) Non-current assets held for sale). The Group has recorded a gain of RMB6,620,000 in the nine months ended 30 September 2010 on the sale of Marine Chemical (see Note 33).

Marine Chemical commenced its operation from May 2009.

- (b) The Company's subsidiary, Shandong Hongqiao, disposed of its Dyeing Business, effective 4 January 2010 to Chuangye Group by exchanging of the assets and liabilities attributable to the Dyeing Business with a then fair value of approximately RMB35,420,000 and a cash consideration of approximately RMB1,154,277,000 to be paid by Shandong Hongqiao, for all the property, plant and equipment attributable to the aluminum business of Chuangye Group (excluding the land on which such production lines were located as the acquisition of such leasehold land is effected through separate land purchase agreements as detailed in Note 36(b)(iii)) with a then fair value of RMB1,189,697,000, which resulted a gain of RMB24,895,000 in the nine months ended 30 September 2010 on disposal of Dyeing Business. As such, the financial results of Dyeing Business for the Track Record Period were presented as discontinued operations retrospectively. This transaction is accounted for as exchange of assets.

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

– continued

(A) Discontinued operations – continued

The decision to dispose of Dyeing Business has not yet been finalised by the management as at 31 December 2009. As a result, the assets and liabilities of Dyeing Business did not satisfy the definition of non-current assets held for sale as at 31 December 2009 under IFRS 5.

The assets and liabilities of the Dyeing Business as at 31 December 2009 are as follows:

	RMB'000
Property, plant and equipment	10,938
Inventories	1,983
Trade receivables due from related parties	7
Total assets	<u>12,928</u>
Trade payables due to third parties	38
Trade payables due to related parties	1,746
Other payables	560
Total liabilities	<u>2,344</u>

Dyeing Business became inactive since November 2007 and no revenue was generated from dyed fabric and yarn-dyed denim products in 2008. The revenue of Dyeing Business in 2009 arose from one-off sales to Chuangye Group, which was incidental.

- (c) On 25 May 2006, the Company's subsidiary, Aluminum & Power, entered into an agency agreement with Chuangye Group to operate the business of alumina owned by Chuangye Group on behalf of Chuangye Group for the period from 26 May 2006 to 31 December 2009. This Alumina Agency Business arrangement was expired on 31 December 2009, further details are disclosed in Note 36(b)(ii).

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

– continued

(A) Discontinued operations – continued

Profit (loss) from discontinued operations

The results of the above discontinued operations for the Track Record Period is analysed as follows:

	Year ended 31 December 2007			
	Dyeing	Marine	Alumina	Total
	Business	Chemical	Agency	
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
– sales of goods	132,772	–	–	132,772
– management fee income (Note 36(b))	–	–	900,314	900,314
Sales tax	–	–	(48,617)	(48,617)
Cost of sales/services (note i)	(128,789)	–	(111,885)	(240,674)
Other income	3,334	–	–	3,334
Distribution and selling expenses	(1,355)	–	–	(1,355)
Administrative expenses	(33,498)	–	–	(33,498)
Finance costs (note ii)	(5,818)	–	–	(5,818)
(Loss) profit before taxation	(33,354)	–	739,812	706,458
Income tax expense	–	–	(281,060)	(281,060)
(Loss) profit for the year	<u>(33,354)</u>	<u>–</u>	<u>458,752</u>	<u>425,398</u>
(Loss) profit for the year attributable to				
Owners of the Company	(32,687)	–	449,577	416,890
Non-controlling interests	(667)	–	9,175	8,508
	<u>(33,354)</u>	<u>–</u>	<u>458,752</u>	<u>425,398</u>

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE
– continued

(A) Discontinued operations – continued

Profit (loss) from discontinued operations – continued

	Year ended 31 December 2008			
	Dyeing	Marine	Alumina	Total
	Business	Chemical	Agency	
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
– management fee income				
<i>(Note 36(b))</i>	–	–	362,889	362,889
Sales tax	–	–	(19,596)	(19,596)
Cost of sales/services <i>(note i)</i>	–	–	(111,885)	(111,885)
Other income	1,397	–	–	1,397
Distribution and selling expenses	(64)	–	–	(64)
Administrative expenses	(1,197)	–	–	(1,197)
Profit before taxation	136	–	231,408	231,544
Income tax expense	(430)	–	(85,823)	(86,253)
(Loss) profit for the year	(294)	–	145,585	145,291
(Loss) profit for the year attributable to				
Owners of the Company	(288)	–	142,673	142,385
Non-controlling interests	(6)	–	2,912	2,906
	(294)	–	145,585	145,291

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE
– continued

(A) Discontinued operations – continued

Profit (loss) from discontinued operations – continued

	Year ended 31 December 2009			
	Dyeing Business	Marine Chemical Business	Alumina Agency Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
– sales of goods	1,344	248,533	–	249,877
– management fee income (Note 36(b))	–	–	154,982	154,982
Sales tax	–	–	(8,369)	(8,369)
Cost of sales/services (note i)	(1,315)	(236,315)	(111,885)	(349,515)
Other income	47	10,608	–	10,655
Distribution and selling expenses	–	(1,273)	–	(1,273)
Administrative expenses	(973)	(10,420)	–	(11,393)
Finance costs (note ii)	–	(17,581)	–	(17,581)
(Loss) profit before taxation	(897)	(6,448)	34,728	27,383
Income tax expense	–	(171)	(36,653)	(36,824)
Loss for the year	<u>(897)</u>	<u>(6,619)</u>	<u>(1,925)</u>	<u>(9,441)</u>
Loss for the year attributable to				
Owners of the Company	(879)	(6,486)	(1,887)	(9,252)
Non-controlling interests	(18)	(133)	(38)	(189)
	<u>(897)</u>	<u>(6,619)</u>	<u>(1,925)</u>	<u>(9,441)</u>

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE
– continued

(A) Discontinued operations – continued

Profit (loss) from discontinued operations – continued

	Nine months ended 30 September 2009 (unaudited)			
	Dyeing Business	Marine Chemical Business	Alumina Agency Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
– sale of goods	–	85,213	–	85,213
– management fee income (Note 36(b))	–	–	99,961	99,961
Sales tax	–	–	(5,419)	(5,419)
Cost of sales/services (note i)	–	(88,320)	(83,913)	(172,233)
Other income	45	6,113	–	6,158
Administrative expenses	(640)	(4,980)	–	(5,620)
Finance cost (note ii)	–	(13,107)	–	(13,107)
Loss before taxation	(595)	(15,081)	10,629	(5,047)
Income tax expense	–	–	(23,635)	(23,635)
Loss for the period	(595)	(15,081)	(13,006)	(28,682)
Loss for the period attributable to				
Owners of the Company	(583)	(14,779)	(12,746)	(28,108)
Non-controlling interests	(12)	(302)	(260)	(574)
	(595)	(15,081)	(13,006)	(28,682)

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE
– continued

(A) Discontinued operations – continued

Profit (loss) from discontinued operations – continued

	Nine months ended 30 September 2010			
	Dyeing Business	Marine Chemical Business	Alumina Agency Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	–	–	–
Sales tax	–	–	–	–
Cost of sales/services	–	–	–	–
Administrative expenses	–	–	–	–
Profit before taxation	–	–	–	–
Income tax expense	–	–	–	–
Profit for the period	–	–	–	–
Gain on disposal of:				
Dyeing Business	24,895	–	–	24,895
Marine Chemical Business	–	6,620	–	6,620
Profit for the period from discontinued operations	<u>24,895</u>	<u>6,620</u>	<u>–</u>	<u>31,515</u>
Profit for the period from discontinued operations attributable to				
Owners of the Company	24,397	6,488	–	30,885
Non-controlling interests	498	132	–	630
	<u>24,895</u>	<u>6,620</u>	<u>–</u>	<u>31,515</u>

Notes:

- (i) The cost of services related to Alumina Agency Business represented the amortisation of intangible assets (see note 17).
- (ii) Borrowing costs capitalised in Marine Chemical Business during the Track Record Period arose on the general borrowing pool amounting to RMB25,619,000, RMB29,497,000, RMB19,786,000 and RMB12,323,000 for the year ended 31 December 2007, 2008, 2009 and the nine months ended 30 September 2009 respectively and are calculated by applying capitalization rates ranging from 7.61% to 9.48%, 9.01% to 9.48%, 5.76% to 9.01% and 5.76% to 9.01% per annum for the year ended 31 December 2007, 2008, 2009 and the nine months ended 30 September 2009 respectively to expenditure on qualifying assets.

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

– continued

(B) Non-current assets held for sale

The assets and liabilities of the Marine Chemical Business as at 31 December 2009, which have been presented separately in the consolidated statement of financial position, are as follows:

	At 31 December 2009
	RMB'000
Property, plant and equipment	1,202,864
Prepaid lease payments (<i>note i</i>)	50,212
Inventories	67,419
Trade receivables	8,033
Bills receivable	33,316
Prepayments and other receivables	22,466
Amounts due from related parties	116,226
Restricted bank deposits	27,506
Bank balances and cash	85,812
Total assets classified as held for sale	<u>1,613,854</u>
Trade payables	133,737
Bills payable	50,000
Other payables	33,226
Amounts due to related parties	90,362
Income tax payable	171
Bank borrowings (<i>note ii</i>)	663,000
Deferred income	10,055
Total liabilities associated with assets classified as held for sale	<u>980,551</u>

Notes:

- (i) Marine Chemical is in the process of obtaining the land use rights certificates for land with an carrying value of RMB21,636,000. The directors of the Company are of the opinion that Marine Chemical has obtained beneficial interest in the land use rights.

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE
– continued

(B) Non-current assets held for sale – continued

(ii)

	At 31 December 2009
	RMB'000
Unsecured bank borrowings	663,000
Included in the unsecured bank borrowings, the balance of borrowings which are guaranteed by – related party	663,000
The total borrowings are repayable as follows:	
Within one year	223,000
In the second year	60,000
In the third year	130,000
In the fourth year	130,000
In the fifth year	120,000
	663,000
Less: Amount due for settlement within one year and shown under current liabilities	223,000
Amount due after one year	440,000
Total borrowings	
– at fixed rates	140,000
– at floating rates	523,000
	663,000
Analysis of borrowings by currency:	
– denominated in RMB	663,000

Fixed interest rate borrowings are charged at the prevailing market rate of 5.84% per annum as at 31 December 2009.

Interest on borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China.

The effective weighted average annual rate for the years ended 31 December 2009 was 7.88% per annum.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the Track Record Period is based on the following data:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period from continuing and discontinued operations attributable to owners of the Company.	<u>1,302,714</u>	<u>420,297</u>	<u>556,289</u>	<u>179,622</u>	<u>2,972,457</u>
Profit for the year/period from continuing operations attributable to owners of the Company	885,824	277,912	565,541	207,730	2,941,572
Profit (loss) for the year/period from discontinued operations attributable to owners of the Company.	416,890	142,385	(9,252)	(28,108)	30,885
	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	'000	'000	'000	'000 (unaudited)	'000
Number of shares	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>

The number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been retrospectively adjusted for the capitalization issue disclosed in Appendix VI as if the shares had been in issue throughout the Relevant Periods.

No diluted earnings per share is presented as the Company did not have potential ordinary shares outstanding during the Track Record Period.

14. DIVIDENDS

No dividends were declared or paid during the Track Record Period.

15. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Plant and machinery</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2007	262,135	732,634	1,977	197	584,885	1,581,828
Additions	34,816	737,866	10,084	581	2,482,496	3,265,843
Transfers	477,850	1,022,749	–	–	(1,500,599)	–
Disposals	–	(32,754)	–	–	–	(32,754)
At 31 December 2007 . .	774,801	2,460,495	12,061	778	1,566,782	4,814,917
Additions	204,648	370,332	3,898	829	1,328,463	1,908,170
Transfers	174,542	665,003	–	–	(839,545)	–
Disposals	–	(4,532)	(3,455)	–	–	(7,987)
At 31 December 2008 . .	1,153,991	3,491,298	12,504	1,607	2,055,700	6,715,100
Additions	–	593,878	308	946	494,012	1,089,144
Transfers	1,290,626	770,669	961	–	(2,062,256)	–
Disposals	–	(1,884)	–	–	–	(1,884)
Reclassified as held for sale	(630,939)	(475,997)	(1,268)	(483)	(116,689)	(1,225,376)
At 31 December 2009 . .	1,813,678	4,377,964	12,505	2,070	370,767	6,576,984
Additions	391,911	890,726	1,672	207	1,128,036	2,412,552
Acquired on acquisition of a subsidiary (Note 32)	–	–	–	29	180,065	180,094
Transfers	188,534	473,143	–	–	(661,677)	–
Disposals	(7,643)	(107,327)	–	–	–	(114,970)
At 30 September 2010 . .	2,386,480	5,634,506	14,177	2,306	1,017,191	9,054,660
DEPRECIATION						
At 1 January 2007	7,445	135,170	47	6	–	142,668
Provided for the year . .	38,043	115,534	560	47	–	154,184
Eliminated on disposal . .	–	(19,591)	–	–	–	(19,591)
At 31 December 2007 . .	45,488	231,113	607	53	–	277,261
Provided for the year . .	52,446	265,086	1,068	165	–	318,765
Eliminated on disposal . .	–	(3,565)	(171)	–	–	(3,736)
At 31 December 2008 . .	97,934	492,634	1,504	218	–	592,290
Provided for the year . .	108,664	305,539	1,219	385	–	415,807
Eliminated on disposals . .	–	(385)	–	–	–	(385)
Reclassified as held for sale	(8,778)	(13,690)	(31)	(13)	–	(22,512)
At 31 December 2009 . .	197,820	784,098	2,692	590	–	985,200
Provided for the period . .	106,720	321,749	992	328	–	429,789
Eliminated on disposal . .	(1,869)	(102,221)	–	–	–	(104,090)
At 30 September 2010 . .	302,671	1,003,626	3,684	918	–	1,310,899
CARRYING AMOUNT						
At 31 December 2007 . .	729,313	2,229,382	11,454	725	1,566,782	4,537,656
At 31 December 2008 . .	1,056,057	2,998,664	11,000	1,389	2,055,700	6,122,810
At 31 December 2009 . .	1,615,858	3,593,866	9,813	1,480	370,767	5,591,784
At 30 September 2010 . .	2,083,809	4,630,880	10,493	1,388	1,017,191	7,743,761

15. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, taking into account their residual values, at the following rates per annum:

Buildings	3%-9.5%
Plant and machinery	6.79%-13.57%
Motor vehicles	9.5-9.6%
Furniture, fixtures and equipment	9.5%-19.2%

16. PREPAID LEASE PAYMENTS

Movements in the prepaid lease prepayments, which represent land use rights in the PRC, during the Track Record Period are analysed as follows:

	RMB'000
At 1 January 2007	–
Additions	11,447
Released	(191)
At 31 December 2007	11,256
Released	(229)
At 31 December 2008	11,027
Additions	39,754
Released	(569)
Reclassified as held for sale	(50,212)
At 31 December 2009	–
Additions	51,594
Acquired on acquisition of a subsidiary (<i>Note 32</i>)	34,682
Released	(719)
At 30 September 2010	85,557

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Prepaid lease payments related to land use rights analysed for reporting purposes as:				
Current assets	229	229	–	1,813
Non-current assets	11,027	10,798	–	83,744
	<u>11,256</u>	<u>11,027</u>	<u>–</u>	<u>85,557</u>

The amount represents the prepayment of rentals for land use rights in the PRC for a period of 50 years.

The prepaid lease prepayments as at 31 December 2007, 2008 and 2009 are attributable to the Marine Chemical Business.

17. INTANGIBLE ASSETS

In 2006, the Group acquired the entire equity interest in Aluminum & Power (which is accounted for as acquisition of assets) from Chuangye Group, 山東士平投資有限公司, 山東潤波投資有限公司 and 山東潤霞投資有限公司 (see Note 36(a) for their relationships with the Group), and intangible assets were recognised in the cost allocation of such acquisition. The intangible assets represented the value of the agency agreement in connection with the Alumina Agency Business, entered into by Chuangye Group and Aluminum & Power in May 2006, which included Aluminum & Power's right to receive management fee income from Chuangye Group and Aluminum & Power's cost saving, representing the difference between the market price and the purchase price of alumina to be supplied by Chuangye Group at cost pursuant to the terms of the agency agreement. The directors of the Company determined the value of the agency agreement with reference to a valuation carried out by Jones Lang LaSalle Sallmanns Limited ("Jones Lang LaSalle Sallmanns"), an independent firm of qualified professional valuer, at the time when the Group obtained control in Aluminum & Power, further details of the arrangements are disclosed in Note 36(b)(ii). The address of Jones Lang LaSalle Sallmanns is 6/F Three Pacific Place, 1 Queen's Road East, Hong Kong.

	RMB'000
COST	
At 1 January 2007, 31 December 2007, 2008 and 2009 and 30 September 2010	443,000
AMORTISATION	
At 1 January 2007	72,116
Charge for the year	123,628
At 31 December 2007	195,744
Charge for the year	123,628
At 31 December 2008	319,372
Charge for the year	123,628
At 31 December 2009 and 30 September 2010	443,000
CARRYING VALUES	
At 31 December 2007	247,256
At 31 December 2008	123,628
At 31 December 2009 and 30 September 2010	–

Intangible assets are amortised on a straight-line basis over their estimated useful lives (which also equal to contract term) of 3.6 years.

The management of the Company assessed the future cash inflows expected to be derived from the management fee income and the financial implications of procurement of alumina from Chuangye Group at cost, and compared the actual net cash flows from the assets with those budgeted, and determined that no impairment loss was required during each of the year ended 31 December 2007 and 2008. The intangible asset was fully amortised as at 31 December 2009.

18. DEFERRED TAXATION

The deferred tax assets recognised by the Group and the movements thereon during the Track Record Period are as follows:

	Excess of accounting depreciation over tax depreciation	Impairment of inventories	Unrealised profit on intra-group sales	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	–	–	–	–
Credit to consolidated statement of comprehensive income	2,825	–	–	2,825
At 31 December 2007	2,825	–	–	2,825
Credit to consolidated statement of comprehensive income	4,624	22,629	–	27,253
At 31 December 2008	7,449	22,629	–	30,078
Credit (charge) to consolidated statement of comprehensive income	4,675	(22,629)	–	(17,954)
At 31 December 2009	12,124	–	–	12,124
Credit to consolidated statement of comprehensive income	3,483	–	19,596	23,079
At 30 September 2010	15,607	–	19,596	35,203

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December			At 30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	2,825	30,078	12,124	35,203

18. DEFERRED TAXATION – continued

Details of the Group's unused tax losses and other deductible temporary differences are as follows:

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010 RMB'000
Tax losses unrecognised for deferred tax assets	8,940	8,804	9,691	5,574
Other deductible temporary differences unrecognised for deferred tax assets	24,371	24,371	24,371	–
Tax losses will expire in				
2012	8,940	8,804	8,804	–
2014	–	–	887	–
2015	–	–	–	5,574
Total	8,940	8,804	9,691	5,574

No deferred tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

Under the new EIT Law, withholding tax is imposed on dividends declared to non-PRC resident investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. Deferred taxation has not been provided for in the Financial Information in respect of undistributed profits of relevant PRC subsidiaries, as the management confirmed that profits generated from 1 January 2008 up to 30 September 2010 will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised with approximately RMB548,386,000, RMB968,760,000 and RMB3,946,791,000 as at 31 December 2008, 31 December 2009 and 30 September 2010 respectively.

19. INVENTORIES

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010 RMB'000
Raw materials	243,690	213,842	142,290	303,422
Work in process	411,122	387,153	396,032	560,418
Finished goods	105,020	142,993	10,038	469
	759,832	743,988	548,360	864,309

20. TRADE RECEIVABLES

The Group has a policy of allowing credit period of no more than 90 days to its trade customers with trading history, or otherwise sales on cash terms are required.

The aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at respective reporting date is as follows:

	At 31 December			Assets held for sale			Contracted for Alumina Production Business				Total			
				At 30	At 31	At 30	At 31 December			At 30	At 31 December			At 30
	2007	2008	2009	September	December	September	2007	2008	2009	September	2007	2008	2009	September
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
0 – 90 days . . .	83,725	32,855	44,416	6,507	7,113	-	18,678	179,639	128,549	-	102,403	212,494	180,078	6,507
91 – 180 days . .	185	-	-	-	920	-	-	-	-	-	185	-	920	-
1 – 2 years . . .	-	1,700	-	-	-	-	-	-	-	-	-	1,700	-	-
	83,910	34,555	44,416	6,507	8,033	-	18,678	179,639	128,549	-	102,588	214,194	180,998	6,507

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.

The aged analysis of trade receivables which are past due but not impaired, presented based on the invoice date is as follows:

	At 31 December			Assets held for sale			Contracted for Alumina Production Business				Total			
				At 30	At 31	At 30	At 31 December			At 30	At 31 December			At 30
	2007	2008	2009	September	December	September	2007	2008	2009	September	2007	2008	2009	September
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
91 – 180 days . .	185	-	-	-	920	-	-	-	-	-	185	-	920	-
1 – 2 years . . .	-	1,700	-	-	-	-	-	-	-	-	-	1,700	-	-

Based on the historical experience of the Group, trade receivables which are past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

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.

20. TRADE RECEIVABLES – continued

Movements in allowance for trade receivables during the Track Record Period:

	At 31 December			Assets held for sale		Contracted for Alumina Production Business				Total				
	At 31 December			At 30 September	At 31 December	At 31 December		At 30 September		At 31 December			At 30 September	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period . . .	-	24,371	24,371	24,371	-	-	-	-	-	-	-	24,371	24,371	24,371
Allowance for the year/period . . .	24,371	-	-	-	-	-	-	-	-	-	24,371	-	-	-
Decrease through disposal of Dyeing Business . . .	-	-	-	(24,371)	-	-	-	-	-	-	-	-	-	(24,371)
Balance at end of the year/period . . .	24,371	24,371	24,371	-	-	-	-	-	-	-	24,371	24,371	24,371	-

The allowance for trade receivable was related to the Dyeing Business. Full provision has been made in respect of individually fully impaired trade receivables which had been in severe financial difficulties.

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.

21. BILLS RECEIVABLE

	At 31 December			Assets held for sale		Contracted for Alumina Production Business				Total				
	At 31 December			At 30 September	At 31 December	At 31 December		At 30 September		At 31 December			At 30 September	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable. . .	1,150,562	1,645,045	763,370	907,534	33,316	-	1,142,051	826,515	678,259	-	2,292,613	2,471,560	1,474,945	907,534
	(Note i)	(Note i)	(Note i)	(Note i)	(Note ii)		(Note iii)	(Note iii)	(Note iii)	(Note iii)				

Notes:

- (i) The Group has discounted bills receivable of approximately RMB346,700,000, RMB97,500,000, RMB22,000,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively to banks with full recourse. The Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as bank borrowings (Note 28).

Bills receivable of approximately RMB84,213,000, RMB286,777,000, RMB135,979,000 and RMB856,560,000 at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were endorsed with recourse to third parties and corresponding trade payables of RMB84,213,000, RMB286,777,000, RMB135,979,000 and RMB856,560,000 at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were included in the consolidated statement of financial position accordingly. And the Group is required to undertake the finance costs incurred by 鄒平高新鋁電有限公司 (“Gaoxin Aluminum & Power”) in relation to discounting these bills receivable to banks which

21. BILLS RECEIVABLE – continued

was paid by the Group as prepayments for sourcing of electricity pursuant to terms of an purchases agreement entered into with Gaoxin Aluminum & Power on 20 June 2008, which was expired on 31 December 2009. As at 31 December 2008 and 2009, the Group has endorsed bills receivable with recourse of RMB272,077,000 and RMB22,000,000 to Gaoxin Aluminum & Power. The finance costs incurred by Gaoxin Aluminum & Power are recorded as other interest expenses as set out in Note 7.

Bills receivable of approximately RMB869,548,000, RMB1,230,424,000, RMB599,864,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were endorsed with recourse to related parties and corresponding amounts due to related parties of RMB869,548,000, RMB1,230,424,000, RMB599,864,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were included in the consolidated statement of financial position accordingly.

- (ii) Bills receivable of RMB3,573,000 classified as held for sale at 31 December 2009 was endorsed with recourse to third parties and corresponding trade payables of RMB3,573,000 at 31 December 2009 was included in liabilities associated with assets classified as held for sale accordingly.

Bills receivable of RMB29,743,000 classified as held for sale at 31 December 2009 was endorsed with recourse to related parties and corresponding amounts due to related parties of RMB29,743,000 at 31 December 2009 was included in liabilities associated with assets classified as held for sale accordingly.

- (iii) The Group has discounted bills receivable of approximately RMB2,000,000, RMB34,850,000, RMB49,000,000 and nil contracted for Alumina Production Business (as defined in Note 36(b)(ii)) at 31 December 2007, 2008, 2009 and 30 September 2010 respectively to banks with full recourse. The Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the discounting as bank borrowings (Note 36(b)(ii)).

Bills receivable of approximately RMB158,576,000, RMB178,715,000, RMB283,572,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were endorsed with recourse to third parties and corresponding trade payables of RMB158,576,000, RMB178,715,000, RMB283,572,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were included in financial liabilities contracted for Alumina Production Business accordingly.

Bills receivable of approximately RMB925,320,000, RMB557,267,000, RMB320,987,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were endorsed with recourse to related parties and corresponding amounts due to related parties of RMB925,320,000, RMB557,267,000, RMB320,987,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010 respectively were included in financial liabilities contracted for Alumina Production Business accordingly.

The Group continues to recognise the full carrying amount of the discounted or endorsed bills receivable with recourse as the Group remains exposed to the credit risk of ownership pertinent to such bills receivable.

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

	Assets held for sale												Contracted for Alumina Production Business				Total			
	At 31 December			At 30 September	At 31 December		At 30 September		At 31 December		At 30 September		At 31 December		At 30 September					
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010						
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000						
0 – 90 days . . .	469,998	430,642	545,952	497,088	16,503	–	465,605	318,716	359,644	–	935,603	749,358	922,099	497,088						
91 – 180 days . . .	680,564	1,214,403	217,418	410,446	16,813	–	676,446	507,799	318,615	–	1,357,010	1,722,202	552,846	410,446						
	1,150,562	1,645,045	763,370	907,534	33,316	–	1,142,051	826,515	678,259	–	2,292,613	2,471,560	1,474,945	907,534						

22. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	At 31 December			At
				30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	14,957	108,693	5,235	668,845
Value added tax receivables	–	–	–	65,664
Other receivables	12,665	14,133	10,142	4,496
	27,622	122,826	15,377	739,005

23. RESTRICTED BANK DEPOSITS AND BANK BALANCES

Restricted bank deposits represent the Group's bank deposits pledged to banks to secure certain short term facilities granted to the Group by banks.

The restricted bank deposits carried market interest rates ranging from nil to 0.81%, 0.05% to 4.14%, nil to 2.25% and 0.36% to 2.25% per annum as at 31 December 2007, 2008, 2009 and 30 September 2010 respectively.

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rate.

Bank balances and cash at 31 December 2007, 2008, 2009 and 30 September 2010 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.

24. TRADE PAYABLES

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

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

	At 31 December				Liabilities held for sale		Contracted for Alumina Production Business				Total			
	At 31 December		At 30 September		At 31 December	At 30 September	At 31 December		At 30 September		At 31 December		At 30 September	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
0 – 180 days . . .	685,004	917,623	340,606	312,036	103,704	–	886,212	665,160	312,439	–	1,571,216	1,582,783	756,749	312,036
181 – 365 days . .	26,856	52,290	11,782	27,210	18,724	–	–	245	–	–	26,856	52,535	30,506	27,210
1 – 2 years . . .	1,970	21,979	36,746	18,172	11,309	–	–	1,017	–	–	1,970	22,996	48,055	18,172
Over 2 years . . .	793	842	5,212	13,787	–	–	–	–	–	–	793	842	5,212	13,787
	714,623	992,734	394,346	371,205	133,737	–	886,212	666,422	312,439	–	1,600,835	1,659,156	840,522	371,205

25. BILLS PAYABLE

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

	At 31 December			At 30 September		Liabilities held for sale		Contracted for Alumina Production Business				Total			
	At 31 December		At 30 September	At 31 December	At 30 September	At 31 December		At 30 September		At 31 December		At 30 September			
	2007	2008	2009	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
0 – 90 days . . .	-	100,000	310,000	-	25,000	-	50,000	200,000	340,000	-	50,000	300,000	675,000		
91 – 180 days . .	20,000	-	-	-	25,000	-	30,000	-	-	-	50,000	-	25,000		
	20,000	100,000	310,000	-	50,000	-	80,000	200,000	340,000	-	100,000	300,000	700,000		

26. OTHER PAYABLES

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

	At 31 December			At 30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other deposits, payables and accruals	181,506	225,130	134,848	117,955
Advance from customers	140,726	475,107	322,094	292,661
Accrued payroll and welfare	32,295	39,482	18,821	24,214
Other tax payable	288,636	217,994	372,296	191,753
	643,163	957,713	848,059	626,583

27. DEFERRED INCOME

	Government grants
	RMB'000
At 1 January 2007	-
Additions	11,200
At 31 December 2007	11,200
Additions	-
At 31 December 2008	11,200
Release to income	(1,145)
Reclassified as held for sale	(10,055)
At 31 December 2009 and 30 September 2010	-

Deferred income arising from government grant represents the government subsidies obtained in relation to the infrastructure construction, which was included in the consolidated statements of financial position as deferred income and credited to the consolidated statements of comprehensive income on a straight-line basis over the expected useful life of the relevant assets.

28. BANK AND OTHER BORROWINGS

(a) Bank borrowings

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Secured bank borrowings	346,700	97,500	22,000	17,000
Unsecured bank borrowings	490,455	1,452,007	1,022,492	4,244,000
	<u>837,155</u>	<u>1,549,507</u>	<u>1,044,492</u>	<u>4,261,000</u>
Included in the unsecured bank borrowings, the balance of borrowings which are guaranteed by – related party . . .	400,000	1,394,569	977,198	3,761,000
The total borrowings are repayable as follows:				
Within one year	567,155	869,970	929,173	300,000
In the second year	60,000	414,032	115,319	–
In the third year	60,000	175,505	–	3,661,000
In the fourth year	60,000	60,000	–	–
In the fifth year	60,000	30,000	–	300,000
In the sixth year	30,000	–	–	–
	<u>837,155</u>	<u>1,549,507</u>	<u>1,044,492</u>	<u>4,261,000</u>
Less: Amount due for settlement within one year and shown under current liabilities . . .	567,155	869,970	929,173	300,000
Amount due after one year	<u>270,000</u>	<u>679,537</u>	<u>115,319</u>	<u>3,961,000</u>
Total borrowings				
– at fixed rates	487,155	354,938	233,890	1,400,000
– at floating rates	350,000	1,194,569	810,602	2,861,000
	<u>837,155</u>	<u>1,549,507</u>	<u>1,044,492</u>	<u>4,261,000</u>
Analysis of borrowings by currency:				
– denominated in RMB	746,700	684,520	402,000	4,261,000
– denominated in US\$ (foreign currency of the relevant group entities)	90,455	864,987	642,492	–

Fixed interest rate borrowings are charged at the prevailing market rates ranging from 6.12% to 8.40%, 6.12% to 8.39%, 1.65% to 8.22% and 5.58% to 5.73% per annum as at 31 December 2007, 2008, 2009 and 30 September 2010, respectively.

Interest on borrowings denominated in RMB at floating rates are calculated based on the borrowing rates announced by the People's Bank of China, and interest on borrowings denominated in USD at floating rates are calculated based on London Interbank Offered Rate.

The effective weighted average annual rate for the year ended 31 December 2007, 2008, 2009 and the nine months ended 30 September 2010 were 7.38%, 7.10%, 4.88% and 5.25% per annum respectively.

28. BANK AND OTHER BORROWINGS – continued**(b) Other borrowings**

Other borrowings represented an advance from a third party which was denominated in USD, unsecured, non-interest bearing and was repayable in May 2012 and was repaid in advance of the maturity day in November 2010.

29. PAID-IN CAPITAL/SHARE CAPITAL

	The Company	
	Number of shares	Share capital
		US\$
Authorised		
Ordinary shares of US\$1 each		
At date of incorporation	50,000	50,000
Increase on subdivision of shares on 7 June 2010	4,950,000	–
	<u>5,000,000</u>	<u>50,000</u>
Ordinary shares of US\$0.01 each		
At 30 September 2010	<u>5,000,000</u>	<u>50,000</u>
Issued and fully paid		
Ordinary shares of US\$1 each		
At date of incorporation	100	100
Issue of new shares on 13 April 2010	9,900	9,900
Increase on subdivision of shares on 7 June 2010	990,000	–
	<u>1,000,000</u>	<u>10,000</u>
		RMB'000
Shown on the statement of financial position		<u>69</u>

On 9 February 2010, the Company was incorporated in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On the same date, 100 shares of US\$1 each were issued.

As part of the Reorganisation set out in Note 1, the amount payable of RMB3,193,921,000 by the Group to Profit Long Investment for the acquisition of the 98% interest in Shandong Hongqiao was settled on 13 April 2010 by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings in April 2010, further details were disclosed in the section headed “History and Reorganisation” in the prospectus.

On 7 June 2010, the par value of the shares of the Company was reduced from US\$1 each to US\$0.01 each, and the authorised share capital was changed from US\$50,000 divided into 50,000 shares of US\$1 each to US\$50,000 divided into 5,000,000 shares of US\$0.01 each. The issued share capital then became 1,000,000 shares of US\$0.01 each.

For the purpose of the preparation of the consolidated statement of financial position for each year, the balance of the paid-in capital at 31 December 2007, 2008 and 2009 represented the paid-in capital of Shandong Hongqiao at the respective date.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debt, which comprising the bank and other borrowings disclosed in Note 28, cash and cash equivalents and equity attributable to owners of the Company, comprising paid in capital/issued share capital and reserves as disclosed in Note 29 and the consolidated statements of changes in equity.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, raise of new capital and share buy-backs as well as the issue of new debt.

31. FINANCIAL INSTRUMENTS

The financial instruments disclosed below include those from the net assets classified as held for sale and financial instruments contracted for Alumina Production Business.

(a) Categories of financial instruments

The Group

	At 31 December		At 30 September	Non-current assets held for sale		Contracted for Alumina Production Business				Total				
				At 31 December	At 30 September	At 31 December		At 30 September		At 31 December		At 30 September		
	2007	2008	2009	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets														
Loans and receivables . . .	1,798,794	2,167,364	2,175,463	2,197,857	234,578	-	1,377,480	1,237,382	1,029,762	-	3,176,274	3,404,746	3,439,803	2,197,857
Financial liabilities														
Liabilities at amortised cost	4,642,613	6,378,795	5,458,986	4,846,205	967,547	-	2,085,006	1,488,847	1,105,843	-	6,727,619	7,867,642	7,532,376	4,846,205

31. FINANCIAL INSTRUMENTS – continued**(a) Categories of financial instruments – continued**

The Company

	At 30 September 2010
	RMB'000
Financial assets	
Loans and receivables	65,406
Financial liabilities	
Liabilities at amortised cost	72,422

(b) Market risk

The Group's and the Company's activities expose it primarily to the foreign currency risk and financial risks of interest rates.

There has been no change to the Group's and the Company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk management

The Group collects all of the revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. Certain bank balances and bank and other borrowings are denominated in foreign currencies which expose the Group to currency risk. Certain monetary assets and liabilities of the Company are also dominated in foreign currencies.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

The Group

	Non-current assets held for sale				Contracted for Alumina Production Business				Total					
	At 31 December		At 30 September	At 31 December	At 30 September	At 31 December		At 30 September	At 31 December		At 30 September			
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets														
USD	428	11,694	630	1,655	25,000	-	-	-	-	-	428	11,694	25,630	1,655
Liabilities														
USD	90,455	864,987	642,492	71,831	25,000	-	-	-	66,896	-	90,455	864,987	734,388	71,831

31. FINANCIAL INSTRUMENTS – continued**(b) Market risk – continued****(i) Foreign currency risk management – continued**

The Company

	At 30 September 2010
	RMB'000
Assets	
USD	65,404
Liabilities	
USD	71,831

Sensitivity analysis

The following table details the Group's sensitivity to a 5% change in exchange rate of USD against RMB while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% change in foreign currency rate. A 5% change in exchange rate of USD against RMB while all other variables were held constant, would not have a significant effect on the Company's profit for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010.

	Year ended 31 December			Nine months ended 30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Increase (decrease) in profit for the year/period				
if RMB weakens against				
USD	(3,016)	(31,998)	(26,578)	(1,316)
if RMB strengthens against				
USD	3,016	31,998	26,578	1,316

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The cash flow interest rate risk of the Group and the Company relates primarily to the restricted bank deposits, bank balances and floating interest rate bank borrowings. The Group and the Company currently do not use any derivative contracts to hedge their exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

31. FINANCIAL INSTRUMENTS – continued**(b) Market risk – continued****(ii) Interest rate risk management – continued***Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For variable-rate bank borrowings, restricted bank deposits and bank balances and cash, the analysis is prepared assuming the amount of liability and assets outstanding at the end of each reporting period was outstanding for the whole year. A 27 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 27 basis points higher/lower and all other variables were held constant:

Profit for the year ended 31 December 2007, 2008 and the nine months ended 30 September 2010 would decrease/increase by RMB52,000, RMB1,791,000 and RMB1,805,000 respectively.

Profit for the year ended 31 December 2009 would increase/decrease by RMB1,023,000.

This is mainly attributable to the Group's exposure to interest rates on its interest bearing restricted bank deposits and bank balances and variable-rate bank borrowings. A 27 basis point change in interest rate while all other variables were held constant would not have a significant effect on the Company's profit for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010.

(c) Credit risk

The Group's and the Company's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, amounts due from related parties, bank balances and deposits. At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in respect of trade receivable as the Group's largest trade receivable amounted to RMB22,580,000, RMB16,926,000, RMB29,861,000 and RMB4,260,000, and represented 22%, 8%, 16% and 65% of the total trade receivables respectively as at 31 December 2007, 2008, 2009 and 30 September 2010.

The Group has concentration of credit risk in respect of trade receivable as the Group's five largest trade receivables amounted to RMB63,794,000, RMB45,632,000, RMB56,239,000 and RMB6,507,000 and represented 62%, 21%, 31%, and 100%, of the total trade receivables respectively as at 31 December 2007, 2008, 2009 and 30 September 2010.

The Group has concentration of credit risk in respect of bills receivable as the Group's bills receivable from the Group's top customer amounted to RMB389,981,000, RMB365,000,000, RMB385,959,000 and RMB310,860,000, and represented 34%, 22%, 51% and 34% of the total bills receivable respectively as at 31 December 2007, 2008, 2009 and 30 September 2010.

31. FINANCIAL INSTRUMENTS – continued**(c) Credit risk – continued**

The Group has concentration of credit risk in respect of bills receivable as the Group's bills receivable from the Group's top five major customers amounted to RMB968,637,000, RMB1,228,737,000, RMB620,199,000 and RMB590,349,000 and represented 84%, 75%, 81%, and 65%, of the total bills receivable respectively as at 31 December 2007, 2008, 2009 and 30 September 2010. The credit risk on bills receivable is limited because the Group's significant bills receivable are bank acceptances with various banks of good credit ratings.

The Company has concentration of credit risk in respect of amount due from a subsidiary. In order to minimise the credit risk on amount due from a subsidiary, the management of the Company continuously monitor the credit quality and financial conditions of the subsidiary and the level of exposure to ensure that follow-up action is taken to recover overdue debts. The directors of the Company consider that the Company has no significant credit risk.

The credit risk on liquid funds is limited because such amounts are placed with various banks with good credit ratings and there is no significant concentration of credit risk.

(d) Liquidity risk management

The Group's net current liabilities position as at 31 December 2007, 2008 and 2009 was primarily attributable to its taking advantage of the financing from amounts due to related parties, the suppliers' credit period to partly finance its operation and utilising short-term bank borrowings for expanding its business. The nature of the Group's business is such that the majority of its liabilities are short-term, consisting mainly of trade payables, bills payable, amounts due to related parties and short-term bank borrowings. The Group also has limited trade receivables as it generally first receives advances from customers.

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities as a significant source of liquidity. Other than the cash generated from operating activities, the Group's management is responsible for obtaining funding from bank loans and the management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate outstanding at the end of each reporting period.

31. FINANCIAL INSTRUMENTS – continued

(d) Liquidity risk management – continued

	The Group							Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
	Weighted	On	6-12 months	1-2 years	2-5 years	More than 5 years	Total		
	average	demand or							
	interest rate %	less than 6 months RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 31 December 2007									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	7.43	488,132	–	–	–	–	488,132	487,155	
Variable-rate bank borrowings	7.95	65,420	42,685	81,141	209,597	30,196	429,039	350,000	
Trade payables	–	573,288	141,335	–	–	–	714,623	714,623	
Bills payables	–	20,000	–	–	–	–	20,000	20,000	
Other payables	–	75,166	138,635	–	–	–	213,801	213,801	
Financial liabilities contracted for Alumina									
Production Business	–	2,085,006	–	–	–	–	2,085,006	2,085,006	
Amounts due to related parties	–	2,857,034	–	–	–	–	2,857,034	2,857,034	
		<u>6,164,046</u>	<u>322,655</u>	<u>81,141</u>	<u>209,597</u>	<u>30,196</u>	<u>6,807,635</u>	<u>6,727,619</u>	
At 31 December 2008									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	7.22	162,795	202,656	–	–	–	365,451	354,938	
Variable-rate bank borrowings	7.28	288,552	264,067	433,680	277,008	–	1,263,307	1,194,569	
Trade payables	–	544,929	447,805	–	–	–	992,734	992,734	
Bills payable	–	100,000	–	–	–	–	100,000	100,000	
Other payables	–	121,699	142,913	–	–	–	264,612	264,612	
Financial liabilities contracted for Alumina									
Production Business	–	1,488,847	–	–	–	–	1,488,847	1,488,847	
Amounts due to related parties	–	3,471,942	–	–	–	–	3,471,942	3,471,942	
		<u>6,178,764</u>	<u>1,057,441</u>	<u>433,680</u>	<u>277,008</u>	<u>–</u>	<u>7,946,893</u>	<u>7,867,642</u>	
At 31 December 2009									
Non-derivative financial liabilities									
Fixed-rate bank borrowings	3.88	240,069	–	–	–	–	240,069	233,890	
Variable-rate bank borrowings	3.95	298,233	415,365	115,980	–	–	829,578	810,602	
Trade payables	–	209,562	184,784	–	–	–	394,346	394,346	
Bills payables	–	310,000	–	–	–	–	310,000	310,000	
Other payables	–	128,802	24,867	–	–	–	153,669	153,669	
Financial liabilities classified as held for sale	–	967,547	–	–	–	–	967,547	967,547	
Financial liabilities contracted for Alumina									
Production Business	–	1,105,843	–	–	–	–	1,105,843	1,105,843	
Amounts due to related parties	–	3,556,479	–	–	–	–	3,556,479	3,556,479	
		<u>6,816,535</u>	<u>625,016</u>	<u>115,980</u>	<u>–</u>	<u>–</u>	<u>7,557,531</u>	<u>7,532,376</u>	
At 30 September 2010									
Fixed-rate bank borrowings	5.60	39,183	39,183	78,366	1,491,773	–	1,648,505	1,400,000	
Variable-rate bank borrowings	5.91	383,135	75,834	151,667	2,780,580	–	3,391,216	2,861,000	
Trade payables	–	371,205	–	–	–	–	371,205	371,205	
Other payables	–	63,805	78,364	–	–	–	142,169	142,169	
Other borrowings	–	–	–	71,831	–	–	71,831	71,831	
		<u>857,328</u>	<u>193,381</u>	<u>301,864</u>	<u>4,272,353</u>	<u>–</u>	<u>5,624,926</u>	<u>4,846,205</u>	

31. FINANCIAL INSTRUMENTS – continued

(d) Liquidity risk management – continued

	The Company						
	Weighted	On					
	average	demand or	6-12				Total
	interest	less than 6	months	1-2 years	2-5 years	More than	undiscounted
rate	months	months	RMB'000	RMB'000	5 years	cash flows	Total
%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	carrying
							amount
							RMB'000
At 30 September 2010							
Other borrowings	-	-	-	71,831	-	-	71,831

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

(e) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values.

32. ACQUISITION OF A SUBSIDIARY

On 25 March 2010, the Group acquired certain assets through acquisition of a 100% equity interest in Zhengtong, from Ms. Zheng and other independent third parties for an aggregate cash consideration of RMB205 million.

As at the date of acquisition, Zhengtong has not yet commenced operation and its production facility was still under construction. As it did not constitute a business under IFRS 3 Business Combinations and the acquisition was in substance an acquisition of the net assets of Zhengtong, the above transaction was accounted for as acquisition of assets and liabilities. The carrying amounts of net assets acquired are as follows:

	RMB'000
Net assets acquired	
Property, plant and equipment	180,094
Deposits paid for acquisition of property, plant and equipment.	6,397
Prepaid lease payments	34,682
Bills receivable	28,546
Prepayments and other receivables	621
Amounts due from related parties.	176,346
Cash and cash equivalents	28,987
Trade payables	(56,991)
Other payables	(180,507)
Amounts due to related parties.	(13,175)
Net assets acquired.	<u>205,000</u>
Total consideration satisfied by cash	<u>205,000</u>
Net cash (outflow) inflow arising from acquisition	
Cash consideration paid.	(205,000)
Cash and cash equivalents acquired	28,987
	<u>(176,013)</u>

33. DISPOSAL OF A SUBSIDIARY

During the nine months ended 30 September 2010, the Group disposed of 100% interest in Marine Chemical for a consideration of RMB600 million. The disposal was effected in order to concentrate and expand the Group's business on aluminum products.

Details of net assets disposed of and gain on disposal are as follows:

	At 1 January 2010
	RMB'000
Net assets disposed of	
Property, plant and equipment	1,202,864
Prepaid lease payments	50,212
Inventories	67,419
Trade receivables	8,033
Bills receivable	33,316
Prepayments and other receivables	22,466
Amounts due from related parties	148,325
Restricted bank deposits	27,506
Bank balances and cash	85,812
Trade payables	(133,737)
Bills payable	(50,000)
Other payables	(33,226)
Amounts due to related parties	(162,384)
Income tax payable	(171)
Bank borrowings	(663,000)
Deferred income	(10,055)
	593,380
Gain on disposal of a subsidiary	6,620
Consideration satisfied by cash	600,000
Net cash inflow (outflow) arising on disposal	
Cash received	600,000
Cash and cash equivalents disposed of	(85,812)
	514,188

34. COMMITMENTS

Capital expenditure

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:				
– contracted for but not provided. . .	887,386	558,659	365,039	83,996
– authorised but not contracted for .	–	–	–	3,213,199
	<u>887,386</u>	<u>558,659</u>	<u>365,039</u>	<u>3,297,195</u>

35. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the major non-cash transactions are as follows:

- (a) The Company's subsidiary, Aluminum & Power purchased an aluminum production line from Chuangye Group for a consideration of RMB499,851,000 during 2007 as disclosed in Note 36(b) and the consideration of RMB499,851,000 was payable to 濱州魏橋鋁業科技有限公司 ("Aluminum Technology") pursuant to the payment instruction issued by Chuangye Group to Aluminum & Power on 30 April 2007, which was not yet paid up to May 2009. On 25 May 2009, Aluminum & Power, Aluminum Technology and Chuangye Group entered into a three-party agreement. Pursuant to the terms of the agreement, the amount due to Aluminum Technology of RMB770,285,000 as at that date was assigned to the amount due to Chuangye Group as at that date of RMB1,235,518,000, and the remaining balance of RMB465,233,000 was regarded as prepayment to Aluminum Technology for purchase of raw materials.
- (b) The Company's subsidiary, Shandong Hongqiao, disposed of its Dyeing Business, effective 4 January 2010 to Chuangye Group by exchanging of the assets and liabilities attributable to the Dyeing Business and a cash consideration of approximately RMB1,154,277,000 to be paid by Shandong Hongqiao, for all the property, plant and equipment attributable to the aluminum business of Chuangye Group as disclosed in Note 12(A).
- (c) As part of the Reorganisation set out in Note 1, Hongqiao Hong Kong acquired 100% interest in Shandong Hongqiao in March 2010 and the Company became the holding company of the Group. The amount payable of RMB3,193,921,000 by the Group to its then shareholders, Profit Long Investment, for the acquisition of the 98% interest in Shandong Hongqiao was settled in April 2010 by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings, further details were disclosed in the section headed "History and Reorganisation" in the prospectus.
- (d) On 30 June 2010, Aluminum & Power, Chuangye Group and Gaoxin Aluminum & Power entered into a three-party agreement. Pursuant to the terms of the agreement, trade payables due to three third parties contracted for Alumina Production Business of RMB57,825,000 and an amount due from Chuangye Group of RMB116,136,000 as at that date were transferred to Gaoxin Aluminum & Power as prepayment for purchase of raw materials of RMB58,311,000. Aluminum & Power obtained the written approvals from the relevant creditors for the above transfer at the same date.

36. RELATED PARTY TRANSACTIONS

The related party transactions and balances disclosed below include those from the discontinued operations and net assets classified as held for sale.

(a) Name and relationship with related parties

Name	Relationship
Chuangye Group	Note ii
Aluminum Technology	Controlled by Chuangye Group
魏橋紡織股份有限公司 ("Weiqiao Textile Company Limited") ("Weiqiao Textile")	Controlled by Chuangye Group
山東魏聯印染有限公司 ("Shandong Weilian Printing & Dyeing Co. Ltd") (note i)	Controlled by Chuangye Group
濱州魏橋海化資源開發有限公司 ("Binzhou Weiqiao Salt Industrial Development Co. Ltd") (note i) (Formerly known as "濱州魏橋鹽業開發有限公司")	Controlled by Chuangye Group
鄒平魏橋再生資源利用有限公司	Controlled by Chuangye Group
山東魏橋恒富針織印染有限公司	Controlled by Chuangye Group
山東魯藤紡織有限公司	Controlled by Weiqiao Textile
山東魏橋服裝有限公司 ("Shandong Weiqiao Costume Co., Ltd.") (note i) ("Weiqiao Costume")	Controlled by Chuangye Group
山東魏橋特寬幅印染有限公司 ("Shandong Weiqiao Tekuanfu Co., Ltd.") (note i) ("Weiqiao Tekuanfu")	Controlled by Chuangye Group
山東士平投資有限公司 ("Shandong Shiping Investment Co., Ltd.") (note i)	Controlled by Mr. Zhang
山東潤波投資有限公司 ("Shandong Runbo Investment Co., Ltd.") (note i)	Controlled by Mr. Zhang's immediate family members

36. RELATED PARTY TRANSACTIONS – continued

(a) Name and relationship with related parties – continued

Name	Relationship
山東潤霞投資有限公司 ("Shandong Runxia Investment Co., Ltd.") (note i)	Controlled by Mr. Zhang's immediate family members
Marine Chemical	Note iv
Profit Long Investment	Controlled by Mr. Zhang
Ms. Zheng	Spouse of Mr. Zhang
Zhengtong	Note iii

Notes:

- (i) The English names of these companies are for reference only and have not been registered.
- (ii) Mr. Zhang, the director and the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group during most of the Track Record Period and up to present.
- (iii) Zhengtong was significantly influenced by Ms. Zheng up to March 2010 when the entire equity interest of Zhengtong was acquired by the Group (see Note 32).
- (iv) Marine Chemical was controlled by Huibin Dyeing since 1 January 2010 (see Note 12(A)(a)).

36. RELATED PARTY TRANSACTIONS – continued

(b) Except as disclosed in elsewhere in this report, the Group has entered into the following significant transactions with its related parties during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Continuing transactions (Note i)					
Purchases of carbon anode blocks (Note v)					
– Aluminum Technology	23,780	201,602	162,820	122,525	224,052
Sales of slag of carbon anode blocks (Note v)					
– Aluminum Technology	–	6,946	15,027	11,353	13,620
Discontinued transactions (Note i)					
Management fee (Notes ii and vi)					
– Chuangye Group	900,314	362,889	154,982	99,961	–
Purchases of alumina					
– Chuangye Group (Notes ii and vi)	1,374,721	2,995,979	2,382,343	1,836,301	–
Sales of carbon anode blocks (Note vi)					
– Aluminum Technology	36,197	–	–	–	–
Sales of accessories (Note vi)					
– Chuangye Group	1,096	–	8,888	156	1
– Aluminum Technology	11,877	1,062	10,494	5,704	70
– 濱州魏橋海化資源開發有限公司	–	–	3	–	–
– Marine Chemical	–	–	–	–	1
– 鄒平魏橋再生資源利用有限公司	–	–	–	–	49
	12,973	1,062	19,385	5,860	121
Sales of cryolite (Note vi)					
– Aluminum Technology	20,554	–	–	–	–
Sales of caustic soda products (Note v)					
– Chuangye Group	–	–	67,926	39,100	–

36. RELATED PARTY TRANSACTIONS – continued

(b) Except as disclosed in elsewhere in this report, the Group has entered into the following significant transactions with its related parties during the Track Record Period: – continued

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of dyed fabric and yarn-dyed denim products (<i>Note vi</i>)					
– Chuangye Group (<i>Note iv</i>)	999	–	1,344	–	–
– 山東魏聯印染有限公司	80,380	–	–	–	–
	<u>81,379</u>	<u>–</u>	<u>1,344</u>	<u>–</u>	<u>–</u>
Sales of property, plant and equipment (<i>Note vi</i>)					
– 山東魏聯印染有限公司	1,574	25	–	–	–
– Weiqiao Tekuanfu	–	7	–	–	–
	<u>1,574</u>	<u>32</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sales of aluminum alloy ingots (<i>Note v</i>)					
– Chuangye Group	–	–	24,059	–	1,928
	<u>–</u>	<u>–</u>	<u>24,059</u>	<u>–</u>	<u>1,928</u>
Sales of aluminum busbars (<i>Note v</i>)					
– Chuangye Group	–	–	90,269	3,448	10,029
	<u>–</u>	<u>–</u>	<u>90,269</u>	<u>3,448</u>	<u>10,029</u>
Sales of coal (<i>Note v</i>)					
– Chuangye Group	–	–	112,838	112,838	–
	<u>–</u>	<u>–</u>	<u>112,838</u>	<u>112,838</u>	<u>–</u>
Purchases of heat insulation material (<i>Note vi</i>)					
– Chuangye Group	351,825	–	–	–	–
	<u>351,825</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Purchases of molten aluminum (<i>Note vi</i>)					
– Aluminum Technology	347,087	–	–	–	–
– Chuangye Group	–	–	–	–	97,530
	<u>347,087</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>97,530</u>
Purchases of materials (<i>Note vi</i>)					
– Chuangye Group	–	10	19,224	562	599
– Aluminum Technology	–	199	596	545	7
– Marine Chemical	–	–	–	–	2
– 濱州魏橋海化資源開發有限公司	–	–	7,101	5,821	–
	<u>–</u>	<u>209</u>	<u>26,921</u>	<u>6,928</u>	<u>608</u>

36. RELATED PARTY TRANSACTIONS – continued

(b) Except as disclosed in elsewhere in this report, the Group has entered into the following significant transactions with its related parties during the Track Record Period: – continued

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchase of dyed fabric and yarn-dyed denim products and related raw materials (Note vi)					
– Chuangye Group (Note iv)	966	–	–	–	–
– Weiqiao Costume	1,653	4,885	2,490	1,773	–
– Weiqiao Textile	64,489	–	–	–	–
– Weiqiao Tekuanfu	–	–	1,315	–	–
	<u>67,108</u>	<u>4,885</u>	<u>3,805</u>	<u>1,773</u>	<u>–</u>
Purchase of cryolite (Note vi)					
– Chuangye Group	–	–	–	–	6,256
Purchases of property, plant and equipment (Note vi)					
– Chuangye Group	499,851	–	–	–	–
– Aluminum Technology	–	–	75,210	–	–
	<u>499,851</u>	<u>–</u>	<u>75,210</u>	<u>–</u>	<u>–</u>
Purchase of land use rights (Note vi)					
– Chuangye Group (Note iii)	–	–	–	–	50,091
Provision of coal by (Note v)					
– Chuangye Group	–	–	442,094	442,094	–
Provision of electricity by (Note vi)					
– Chuangye Group	936,368	1,680,975	1,280,787	1,018,623	–
Provision of steam by (Note vi)					
– Chuangye Group	689	–	–	–	–
Rental expense (Notes iii and vi)					
– Chuangye Group	2,567	15,128	16,318	11,644	1,558
Interest expense (Note v, see note (c) below for details)					
– Chuangye Group	25,481	74,010	38,505	19,424	–

36. RELATED PARTY TRANSACTIONS – continued

(b) Except as disclosed in elsewhere in this report, the Group has entered into the following significant transactions with its related parties during the Track Record Period: – continued

In addition to the above, during the Track Record Period, the Group has also provided steam, a side product in the Group's production process, to Chuangye Group free of charge. Such provision has been discontinued since 1 January 2010.

Notes:

- (i) In the opinion of the directors of the Company, the related party transactions were conducted in the ordinary course of the Group's business on terms set out in notes v and vi below, and the above continuing transactions will continue after the Listing, while the discontinued transactions will be discontinued.
- (ii) Pursuant to the agency agreement entered into by Chuangye Group and Aluminum & Power on 25 May 2006, Aluminum & Power agreed to operate the business of alumina owned by Chuangye Group (the "Alumina Production Business") on behalf of Chuangye Group for the period from 26 May 2006 to 31 December 2009. In return, Chuangye Group agreed to pay management fee to Aluminum & Power for the sales of alumina to the third parties at a predetermined rate of RMB400, RMB200 and RMB100 per ton for the period from 26 May 2006 to 31 December 2007, for the year ended 31 December 2008 and 2009 respectively and to provide alumina to Aluminum & Power at cost.

The assets and liabilities of Alumina Production Business operated by the Group on behalf of Chuangye Group does not form part of the Financial Information except for certain financial instruments contracted by the Group as an agent on behalf of Chuangye Group as a result of these arrangements, which were included in the Financial Information according to the requirements of IAS 39 as disclosed below. During the Track Record Period, Aluminum & Power has recorded in its books and record, as an agent, the transactions of the Alumina Production Business other than those relating to property, plant and equipment which were purchased, recorded and maintained by Chuangye Group.

The financial assets and liabilities contracted by the Group on behalf of the Alumina Production Business are as follows:

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial assets				
Trade receivables	18,678	179,639	128,549	–
Bills receivable	1,142,051	826,515	678,259	–
Other receivables	–	–	1,173	–
Trade receivables due from related parties	216,751	231,228	221,781	–
	1,377,480	1,237,382	1,029,762	–

	At 31 December			At
	2007	2008	2009	30 September
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial liabilities				
Trade payables	886,212	666,422	312,439	–
Bills payable	80,000	200,000	340,000	–
Other payables	32,898	25,069	1,743	–
Trade payables due to related parties	1,083,896	562,506	402,661	–
Bank borrowings under discounted bills facilities	2,000	34,850	49,000	–
	2,085,006	1,488,847	1,105,843	–

36. RELATED PARTY TRANSACTIONS – continued

(b) Except as disclosed in elsewhere in this report, the Group has entered into the following significant transactions with its related parties during the Track Record Period: – continued

- (iii) Pursuant to a lease entered into between Chuangye Group and the Group, Chuangye Group agreed to lease to the Group certain land for the Group's production facilities with effect from 1 July 2005. Pursuant to certain land purchase agreements entered into by Chuangye Group and the Group dated 11 January 2010, the Group acquired the land use rights for the land leased from Chuangye Group; and the land on which the production plants of the aluminum business of Chuangye Group acquired by the Group as disclosed in Note 12(A)(b) were located, for an aggregate cash consideration of RMB50,091,000, which was paid in January 2010.
- (iv) The purchase and sales were related to the Dyeing Business of the Group incurred throughout the Track Record Period.
- (v) The transactions were conducted at prices with reference to the then prevailing market prices.
- (vi) The transactions were conducted at prices agreed by both parties.

(c) Balances with related parties

	Assets held for sale												Contracted for Alumina Production Business				Total			
	At 31 December			At 30 September		At 31 December		At 30 September		At 31 December		At 30 September		At 31 December		At 30 September				
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010						
RMB'000																				
Amounts due from related parties:																				
- Chuangye Group	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
- 濱州魏橋海化資源開發有限公司	65,011	151,239	1,203	-	105,301	-	-	-	-	-	65,011	151,239	106,504	-						
- Aluminum Technology	-	-	80,646	-	-	-	216,689	222,112	219,705	-	216,689	222,112	300,351	-						
- 山東魏聯印染有限公司	165,000	-	-	-	-	-	-	-	-	-	165,000	-	-	-						
- Weiqiao Tekuanfu	-	7	7	-	-	-	-	-	-	-	-	7	7	-						
- 鄒平魏橋再生資源利用有限公司	-	-	-	-	-	-	-	8,960	1,334	-	-	8,960	1,334	-						
- Zhengtong	-	8,821	71,900	-	10,925	-	-	-	-	-	-	8,821	82,825	-						
- Profit Long Investment (note i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
- Other subsidiaries of Chuangye Group	-	-	-	-	-	-	62	156	742	-	62	156	742	-						
Total	230,011	160,067	153,756	-	116,226	-	216,751	231,228	221,781	-	446,762	391,295	491,763	-						

36. RELATED PARTY TRANSACTIONS – continued

(c) Balances with related parties – continued

All amounts due from related parties were denominated in RMB, unsecured, interest free and repayable on demand.

	At 31 December		Assets held for sale		Contracted for Alumina Production Business				Total					
			At 30 September	At 31 December	At 30 September	At 31 December		At 30 September		At 31 December		At 30 September		
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties:														
– Aluminum Technology	753,310	956,345	–	–	–	–	100	2,000	–	753,310	956,445	2,000	–	–
– Chuangye Group	2,063,724	2,364,042	3,554,740	–	89,745	–	1,083,896	562,406	366,051	–	3,147,620	2,926,448	4,010,536	–
– Zhengtong	–	91,055	–	–	–	–	–	–	32,524	–	–	91,055	32,524	–
– Weiqiao Costume	–	500	–	–	617	–	–	–	–	–	–	500	617	–
– 鄒平魏橋再生資源利用有限公司	–	–	200	–	–	–	–	–	2,086	–	–	–	2,286	–
– Weiqiao Tekuanfu	–	–	1,539	–	–	–	–	–	–	–	–	–	1,539	–
– 濱州魏橋海化資源開發有限公司	40,000	60,000	–	–	–	–	–	–	–	–	40,000	60,000	–	–
– Profit Long Investment	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Marine Chemical	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	2,857,034	3,471,942	3,556,479	–	90,362	–	1,083,896	562,506	402,661	–	3,940,930	4,034,448	4,049,502	–

All amounts due to related parties were unsecured, non-interest bearing and payable on demand except for the amount due to Chuangye Group of approximately RMB354,564,000, RMB946,510,000, RMB393,180,000 and nil at 31 December 2007, 2008, 2009 and 30 September 2010, which carried prevailing market rates for discounted bills banking facilities in the PRC.

(d) Compensation of key management personnel

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefit	62	72	70	52	177
Retirement benefits scheme contributions	14	16	16	6	15
	76	88	86	58	192

Five key management personnel's emoluments are borne by Chuangye Group for each of the year ended 31 December 2007, 2008, 2009 and up to certain dates as detailed in Note 9.

36. RELATED PARTY TRANSACTIONS – continued**(e) Guarantees and security**

At the end of each reporting period, details of amounts of bank borrowings of the Group guaranteed by a related party were as follows:

	At 31 December			At 30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Chuangye Group.	400,000	1,394,569	1,640,198	3,761,000

The guarantees provided by Chuangye Group was released subsequent to 30 September 2010.

37. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY**The Company****(a) Investments in subsidiaries**

	At 30 September 2010 RMB'000
Unlisted investment in a directly owned subsidiary , at cost	3,193,922
Deemed capital contribution in an indirectly owned subsidiary	1,890
	<u>3,195,812</u>

Included in investments in subsidiaries is deemed capital contribution resulting from fair value adjustment of approximately RMB2,200,000 on interest free amount due from an indirectly owned subsidiary, Hongqiao Hong Kong as detailed below.

(b) Amount due from a subsidiary

	At 30 September 2010 RMB'000
Amount due from a subsidiary:	
– Hongqiao Hong Kong.	<u>64,325</u>

The amount due from Hongqiao Hong Kong was denominated in USD, unsecured, interest free and has no fixed repayment term. In the opinion of the directors of the Company, the amount will not be repaid within twelve months from the end of the reporting period and are classified as non-current asset.

37. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

– continued

(c) Amount due to a subsidiary

	At 30 September 2010
	RMB'000
Amount due to a subsidiary:	
– Shandong Hongqiao	591

The amount due to Shandong Hongqiao was unsecured, non-interest bearing and payable on demand.

38. CONTINGENT LIABILITY

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

On 11 July 2003, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers for approximately RMB424 million (the “2003 Boiler Purchase Agreement”). This boiler supply agreement was amended for several times with respect to its total price, delivery schedule and payment term in 2005 and 2006. As both parties had disputes regarding the interpretation of the terms with respect to the total price and quality deposits, on 15 September 2010, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People’s Court, seeking for payment of the remaining contract sum and refund of quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, an overdue fine of approximately RMB57.5 million and the relevant litigation expenses. Shandong Higher People’s Court has not reached a final judgment.

On 16 February 2006 and 24 May 2006, Aluminum & Power and Wuhan Boiler entered into two boiler supply agreements (the “2006 Boiler Purchase Agreements”). Pursuant to the terms of each of the 2006 Boiler Purchase Agreements, Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers. The total contract amount of each of the 2006 Boiler Purchase Agreements was approximately RMB104 million. On 23 March 2010, Aluminum & Power, Gaoxin Aluminum & Power and Wuhan Boiler entered into a contract for assigning the rights and obligations under both 2006 Boiler Purchase Agreements from Aluminum & Power to Gaoxin Aluminum & Power. Pursuant to the terms of this contract, Gaoxin Aluminum & Power has the primary responsibility to fulfill obligations under the 2006 Boiler Purchase Agreements and Wuhan Boiler had the right to seek performance by Aluminum & Power under the 2006 Boiler Purchase Agreements if Gaoxin Aluminum & Power refuses or fails to do so. As Wuhan Boiler and Gaoxin Aluminum & Power had disputes regarding the interpretation of the terms of the 2006 Boiler Purchase Agreements including the total price under these agreements, on 8 November 2010 and 17 November 2010, Wuhan Boiler respectively initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People’s Court, seeking, (i) for the agreement dated 16 February 2006, damages

38. CONTINGENT LIABILITY – continued

of approximately RMB51.51 million; (ii) for the agreement dated 24 May 2006, payment of remaining contract sum RMB32.7 million, payment of terminated loss of RMB13 million, damages of approximately RMB49.2 million, and overdue fine of approximately RMB47.6 million; and (iii) relevant litigation expenses. Shandong Higher People's Court has not reached a final judgment up to the date of this report.

At present, the litigations are still at preliminary stage. The Group has accrued in full the remaining contract sum in relation to the 2003 Boiler Purchase Agreement including the quality deposits in an aggregate amount of RMB52.3 million (the "Accrued Liabilities") in relation to the litigations brought by Wuhan Boiler. In the opinion of the directors of the Company, the other claims made by Wuhan Boiler in addition to the Accrued Liabilities including damages, penalty interests and litigation costs are without merit and they will defend vigorously against such claims. After seeking legal advice, the directors of the Company are of the opinion that it is not probable that the claims will result in payment by the Group in excess of the Accrued Liabilities and accordingly, no additional provision has been made in the Financial Information for the claim brought by Wuhan Boiler.

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

39. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group has participated in certain defined contribution retirement schemes managed by the respective municipal governments where the Group operates, covering all permanent staff of the Group. The Group has no obligation beyond the contributions which are calculated based on 17% to 20% of permanent staff basic salaries during the Track Record Period.

C. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ended 31 December 2010 is estimated to be approximately RMB5,213,000.

D. SUBSEQUENT EVENT

Pursuant to the written resolutions passed on 16 January 2011, upon the satisfactions of certain conditions set out in Appendix VI of this prospectus, (i) conditional on the share premium account of the Company being credited as a result of the Share Offer, the sum of US\$49,990,000 standing to the credit of the share premium account of the Company will be capitalised and applied in paying up in full at par 4,999,000,000 shares allotment and issue to the shareholders whose names were on the register of members of the Company as of the close of business on 16 January 2011; and (ii) the authorized share capital of the Company will be increased from US\$50,000 to US\$100,000,000 by the creation of an additional 9,995,000,000 shares.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies comprising the Group in respect of any period subsequent to 30 September 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix was prepared in accordance with Rule 4.29 of the Listing Rules and is for information purposes only and does not form part of the accountants' report on financial information of the Group for the three years ended 31 December 2009 and nine months ended 30 September 2010 prepared by the reporting accountants of our Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix I.

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to illustrate (i) how the proposed listing might have affected the net tangible assets of the Group after the completion of the Global Offering as if the Global Offering had taken place on 30 September 2010; and (ii) how the proposed listing might have affected the estimated earnings per share of the Group for the year ended 31 December 2010 as if the Global Offering had taken place on 1 January 2010.

Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerned or any future periods.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted net tangible assets of the Group which is based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 September 2010 as shown in the accountants' report on financial information of the Group for the three years ended 31 December 2009 and nine months ended 30 September 2010, the text of which is set out in Appendix I to this prospectus, adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group after the Global Offering or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 September 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on the Offer Price of					
HK\$7.20 per Share	6,079,260	5,188,225	11,267,485	1.91	2.26
Based on the Offer Price of					
HK\$8.30 per Share	6,079,260	5,988,359	12,067,619	2.05	2.43

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets attributable to the owners of the Company as of 30 September 2010 are based on audited consolidated net assets attributable to the owners of the Company as of 30 September 2010 of approximately RMB6,079,260,000 as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 885,000,000 shares at the offer price of lower limit and upper limit of HK\$7.20 and HK\$8.30 per Share, respectively, after deduction of estimated related fees and expenses and do not take into account of any Share that may be issued pursuant to the exercise of the Over-allotment Option or issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate. They are converted into Renminbi at an exchange rate of HK\$1.00 to RMB0.8435. No representation is made that Hong Kong dollar amounts have been, could have been or could be translated to Renminbi amounts, or vice versa, at that rate or at any other rates or at all.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 5,885,000,000 Shares in issue immediately following completion of the Global Offering. It does not take into account of any Share which may be issued upon exercise of the Over-allotment Option or issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share are converted into Hong Kong Dollars at an exchange rate of RMB0.8435 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or could be translated to Hong Kong dollar amounts, or vice versa, at that rate or at any other rates or at all.
5. By comparing the valuation of our property interests as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB701.76 million as compared to the carrying amounts of the Group's property interests as of 31 December 2010, which has not been included in the above consolidated net tangible assets attributable to owners of the Company. The valuation surplus of our property interests will not be incorporated in the Group's consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional annual depreciation charge of approximately RMB13,453,000 would be incurred.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimate earnings per Share for the year ended 31 December 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010. The unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering or for any future periods.

For the year ended 31 December 2010

Estimated consolidated profit attributable to owners of the Company ⁽¹⁾not less than RMB4,100 million (approximately HK\$4,860 million)
Unaudited pro forma estimated earnings per Share ^(2 and 3)not less than RMB0.70 (approximately HK\$0.82)

Notes:

1. The bases on which the above estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2010 has been prepared are summarized in Appendix III to the prospectus.
2. The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2010 and assuming a total of 5,885,000,000 shares had been in issue throughout the year ended 31 December 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate.
3. The unaudited pro forma estimated earnings per Share is converted into Hong Kong Dollars at an exchange rate of RMB0.8435 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or could be translated to Hong Kong dollar amounts, or vice versa, at that rate or at any other rates or at all.

C. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Deloitte Touche Tohmatsu, the reporting accountants of our Company, in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF CHINA HONGQIAO GROUP LIMITED**

We report on the unaudited pro forma financial information of China Hongqiao Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the global offering might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated 14 March 2011 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in sections A and B of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as of 30 September 2010 or any future date, or the earnings per share of the Group for the year ended 31 December 2010 or any future period.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

14 March 2011

The estimate of the consolidated profit attributable to the owners of the Company for the year ended 31 December 2010 is set out in the paragraph headed “Profit estimate for the year ended December 31, 2010” under the section headed “Financial Information” in this prospectus.

1. BASES

The estimate of the consolidated profit attributable to the owners of the Company for the year ended 31 December 2010 prepared by the Directors is based on the audited consolidated results of the Group for the nine months ended 30 September 2010 and the unaudited consolidated results of the Group for the three months ended 31 December 2010. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report on the financial information of the Group for the three years ended 31 December 2009 and nine months ended 30 September 2010, the text of which is set out in Appendix I to this prospectus.

2. LETTER FROM DELOITTE TOUCHE TOHMATSU

Set out below is the text of a letter, prepared for inclusion in this prospectus, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, in connection with the estimate of the consolidated profit attributable to the owners of the Company for the year ended 31 December 2010.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

14 March 2011

The Directors
China Hongqiao Group Limited

J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the estimate of the consolidated profit of China Hongqiao Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2010 attributable to owners of the Company (the "Estimate"), for which the directors of the Company are solely responsible, as set out in the prospectus dated 14 March 2011 issued by the Company (the "Prospectus"). The Estimate is prepared based on the audited results of the Group for the nine months ended 30 September 2010 and the unaudited consolidated results shown in the unaudited management accounts of the Group for the three months ended 31 December 2010.

In our opinion the Estimate, so far as the accounting policies and calculations are concerned, has been properly compiled on the bases made by the directors of the Company as set out in part 1 of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report on the financial information of the Group for the three years ended 31 December 2009 and nine months ended 30 September 2010 as set out in Appendix I to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3. LETTER FROM SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors from J.P Morgan Securities (Asia Pacific) Limited, the Sole Sponsor, in connection with the estimate of the consolidated net profit of the Company for the year ended 31 December 2010.

J.P.Morgan

Level 28, Chater House
8 Connaught Road
Central, Hong Kong

The Director
China Hongqiao Group Limited

14 March 2011

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to the equity holders of China Hongqiao Group Limited (the “Company”, and together with the companies that will form part of its group upon listing (the “Group”)) for the year ended 31 December 2010 (the “Profit Estimate”) as set out in the Prospectus issued by the Company dated 14 March 2011 (the “Prospectus”).

We understand that the Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Group for the nine months ended 30 September 2010 and the unaudited consolidated results of the Group prepared by its management for the three months ended 31 December 2010.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated 14 March 2011 addressed to yourselves from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
David Lau
Executive Director

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as of 31 December 2010 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

14 March 2011

The Board of Directors
China Hongqiao Group Limited
Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman KY1-1112
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which China Hongqiao Group Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as of 31 December 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interest in Group III by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the property interests in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group II which is currently under development, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as of the date of valuation and the remainder of the costs and fees to be expended to complete the developments.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisor – Zong Heng Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Sallmanns Limited

Paul L. Brown

B.Sc. FRICS FHKIS

Chief Valuation Adviser

Sam B. Q. Zhu

MRICS

Director

Note:

1. Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.
2. Sam B. Q. Zhu is a Chartered Surveyor who has 13 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as of 31 December 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as of 31 December 2010 RMB
1.	A parcel of land and 3 buildings located at the southern side of Huixian Yi Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	200,527,000	100%	200,527,000
2.	A parcel of land, 34 buildings and various structures located at the eastern side of Yuehe Si Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	312,338,000	100%	312,338,000
3.	2 parcels of land, 147 buildings and various structures located at the western side of Yuehe San Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	2,061,372,000	100%	2,061,372,000

APPENDIX IV**PROPERTY VALUATION**

No. Property	Capital value in existing state as of 31 December 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as of 31 December 2010 RMB
4. A parcel of land, 69 buildings and various structures located at the southern side of Weima Road Weiqiao Town Zouping County Binzhou City Shandong Province The PRC	413,959,000	100%	413,959,000
	Sub-total:		
	<u>2,988,196,000</u>		<u>2,988,196,000</u>

Group II – Property interest held under development by the Group in the PRC

No. Property	Capital value in existing state as of 31 December 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as of 31 December 2010 RMB
5. A parcel of land, 12 buildings and various structures under construction located at the northern side of Huanghe Wu Road and the eastern side of Xisha Road Economic Development Zone Binzhou City Shandong Province The PRC	401,163,000	100%	401,163,000
	Sub-total:		
	<u>401,163,000</u>		<u>401,163,000</u>

Group III – Property interest held for future development by the Group in the PRC

No.	Property	Capital value in existing state as of 31 December 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as of 31 December 2010 RMB
6.	A parcel of land located at the western side of Huanghe Wu Road Economic Development Zone Binzhou City Shandong Province The PRC	96,874,000	100%	96,874,000
	Sub-total:	<u>96,874,000</u>		<u>96,874,000</u>
	Grand total:	<u>3,486,233,000</u>		<u>3,486,233,000</u>

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
1.	A parcel of land and 3 buildings located at the southern side of Huixian Yi Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 455,416.5 sq.m. and 3 buildings erected thereon which were completed in January 2008.</p> <p>The buildings have a total gross floor area of approximately 30,286.54 sq.m.</p> <p>The buildings comprise an office building, an ancillary building and a guardhouse.</p> <p>The land use rights of the property have been granted for a term expiring on 29 July 2053 for industrial use.</p>	The property is currently occupied by the Group for office and ancillary purposes.	200,527,000 100% interest attributable to the Group: RMB200,527,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2003) No. 0104129, the land use rights of a parcel of land with a site area of approximately 455,416.5 sq.m. have been granted to Shandong Weiqiao Aluminum and Power Co., Ltd. (“Aluminum & Power”, a wholly-owned subsidiary of the Company) for a term expiring on 29 July 2053 for industrial use.
2. Pursuant to a Building Ownership Certificate – Bin Zhou Shi Fang Quan Zheng Zou Ping Xian Zi No. 004142, 3 buildings with a total gross floor area of approximately 30,286.54 sq.m. are owned by Aluminum & Power.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisor, which contains, *inter alia*, the following:
 - a. Aluminum & Power has legally obtained both the state-owned land use rights certificate and the building ownership certificate of the property and the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - b. Aluminum & Power has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the property in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - c. the property is neither subject to any guarantee, mortgage, sequestration or other rights restriction nor any third party’s rights.
 - d. the actual use of the parcel of land of the property is complied with its prescribed usage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
2.	A parcel of land, 34 buildings and various structures located at the eastern side of Yuehe Si Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 274,407.10 sq.m., 34 buildings and various structures erected thereon which were completed in January 2010.</p> <p>The buildings have a total gross floor area of approximately 110,276.08 sq.m.</p> <p>The buildings mainly include various industrial buildings, an office building, a dining house and a guardhouse.</p> <p>The structures mainly include roads, a cistern and a chimney.</p> <p>The land use rights of the property have been granted for a term expiring on 29 May 2056 for industrial use.</p>	The property is currently occupied by the Group for production and ancillary purposes.	312,338,000 100% interest attributable to the Group: RMB312,338,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2006) No. 0104213, the land use rights of a parcel of land with a site area of approximately 274,407.10 sq.m. have been granted to Shandong Weiqiao Aluminum and Power Co., Ltd. (“Aluminum & Power, a wholly-owned subsidiary of the Company) for a term expiring on 29 May 2056 for industrial use.
2. Pursuant to a Land Use Rights Lease Agreement (“Lease Agreement”), the land parcel mentioned in note 1 is leased to Shandong Hongqiao New Material Co., Ltd. (“Hongqiao New Material”, a wholly-owned subsidiary of the Company) from Aluminum & Power for a term of 20 years expiring on 11 January 2030 at an annual rent of RMB2,058,000, exclusive of management fees, water and electricity charges.
3. Pursuant to a Building Ownership Certificate – Bin Zhou Shi Fang Quan Zheng Zou Ping Xian Zi No. 004147, 34 buildings with a total gross floor area of approximately 110,276.08 sq.m. are owned by Hongqiao New Material.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisor, which contains, *inter alia*, the following:
 - a. Aluminum & Power has legally obtained the state-owned land use rights of the property and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of it in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - b. the Lease Agreement mentioned in note 2 is legal, valid and binding on the both parties and has been duly registered in accordance with the PRC laws.
 - c. Hongqiao New Material has legally obtained the building ownership certificate and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the buildings of the property.
 - d. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - e. the property is neither subject to any guarantee, mortgage, sequestration or other rights restriction nor any third party’s rights except for the lease terms mentioned in note 2.
 - f. the actual use of the parcel of land is complied with its prescribed usage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
3.	2 parcels of land, 147 buildings and various structures located at the western side of Yuehe San Road Economic Development Zone Zouping County Binzhou City Shandong Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 2,118,287 sq.m., 147 buildings and various structures erected thereon which were completed in various stages between 2007 and 2009.</p> <p>The buildings have a total gross floor area of approximately 546,308.38 sq.m.</p> <p>The buildings mainly include various industrial buildings, warehouses and dining houses.</p> <p>The structures mainly include boundary fences, roads, cisterns and chimneys.</p> <p>The land use rights of the property have been granted for terms expiring on 23 May 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	2,061,372,000 100% interest attributable to the Group: RMB2,061,372,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Zou Guo Yong (2006) Nos. 0104153 and 0104155, the land use rights of 2 parcels of land with a total site area of approximately 2,118,287 sq.m. have been granted to Shandong Weiqiao Aluminum and Power Co., Ltd. (“Aluminum & Power”, a wholly-owned subsidiary of the Company) for terms expiring on 23 May 2056 for industrial use.
2. Pursuant to 2 Building Ownership Certificates – Bin Zhou Shi Fang Quan Zheng Zou Ping Xian Zi Nos. 004143 and 004144, 147 buildings with a total gross floor area of approximately 546,308.38 sq.m. are owned by Aluminum & Power.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisor, which contains, *inter alia*, the following:
 - a. Aluminum & Power has legally obtained both the state-owned land use rights certificate and the building ownership certificate of the property and the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - b. Aluminum & Power has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the property in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - c. the property is neither subject to any guarantee, mortgage, sequestration or other rights restriction nor any third party’s rights.
 - d. the actual use of the 2 parcels of land of the property is complied with its prescribed usage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
4.	A parcel of land, 69 buildings and various structures located at the southern side of Weima Road Weiqiao Town Zouping County Binzhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 529,566.2 sq.m., 69 buildings and various structures erected thereon which were completed in various stages between 2003 and 2007.</p> <p>The buildings have a total gross floor area of approximately 237,643.88 sq.m.</p> <p>The buildings mainly include various industrial buildings, an office building, a dormitory building and dining houses.</p> <p>The structures mainly include boundary fences, roads, cistern and chimney.</p> <p>The land use rights of the property have been granted for a term expiring on 20 May 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	413,959,000 100% interest attributable to the Group: RMB413,959,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2006) No. 030144, the land use rights of a parcel of land with a site area of approximately 529,566.2 sq.m. have been granted to Shandong Weiqiao Aluminum and Power Co., Ltd. (“Aluminum & Power”, a wholly-owned subsidiary of the Company) for a term expiring on 20 May 2056 for industrial use.
2. Pursuant to a Building Ownership Certificate – Bin Zhou Shi Fang Quan Zheng Zou Ping Xian Zi No. 004145, 69 buildings with a total gross floor area of approximately 237,643.88 sq.m. are owned by Aluminum & Power.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisor, which contains, *inter alia*, the following:
 - a. Aluminum & Power has legally obtained both the state-owned land use rights certificate and the building ownership certificate of the property and the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - b. Aluminum & Power has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the property in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - c. the property is neither subject to any guarantee, mortgage, sequestration or other rights restriction nor any third party’s rights.
 - d. the actual use of the parcel of land of the property is complied with its prescribed usage.

VALUATION CERTIFICATE

Group II – Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
5.	A parcel of land, 12 buildings and various structures under construction located at the northern side of Huanghe Wu Road and the eastern side of Xisha Road Economic Development Zone Binzhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 101,707 sq.m., 12 buildings and various structures which are currently under construction thereon in different stages of construction.</p> <p>The property is scheduled to be completed in March 2011. Upon completion, the buildings of the property will have a total gross floor area of approximately 125,063 sq.m.</p> <p>The total construction cost of the property is estimated to be approximately RMB369,482,000, of which RMB329,382,000 had been paid up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term expiring on 15 December 2058 for industrial use.</p>	The property is currently under construction.	401,163,000 100% interest attributable to the Group: RMB401,163,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 15 December 2008, the land use rights of a parcel of land with a site area of approximately 101,707 sq.m. were contracted to be granted to Binzhou Zhengtong New Aluminum Section Co., Ltd. (“Zhengtong Aluminum”, a wholly-owned subsidiary of the Company) for a term of 50 years for industrial use. The land premium was RMB25,000,000.
2. Pursuant to a State-owned Land Use Rights Certificate – Bin Guo Yong (2008) Di No. K0215, the land use rights of a parcel of land with a site area of approximately 101,707 sq.m. have been granted to Zhengtong Aluminum for a term expiring on 15 December 2058 for industrial use.
3. Pursuant to a Construction Work Planning Permit – Bin Kai Gui Jian Zi No.3716002008005 in favor of Zhengtong Aluminum, 29 buildings with a total planned gross floor area of approximately 185,274 sq.m. have been approved for construction.
4. Pursuant to a Construction Work Commencement Permit – Bin Kai Jian Zhong Zi (2008) No. 019 in favor of Zhengtong Aluminum, permission by the relevant local authority of 29 buildings mentioned in note 3 was given to commence the construction work. As of the date of valuation, 12 of 29 buildings with a total planned gross floor area of approximately 125,063 sq.m. have commenced the construction work.
5. Pursuant to a Mortgage Contract of Maximum Amount, the land use rights of the property are subject to a mortgage in favor of Binzhou Xincheng Branch of Industrial and Commercial Bank of China (the “Bank”), as security to guarantee the principal obligation under a series of contracts entered into between the Bank and Zhengtong Aluminum for a maximum amount of RMB170,000,000 with the security term from 28 June 2010 to 7 January 2015.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisor, which contains, *inter alia*, the following:
 - a. Zhengtong Aluminum has legally obtained the state-owned land use rights of the property and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of it in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - b. the land parcel of the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - c. Zhengtong Aluminum has legally obtained Construction Work Planning Permit, Construction Work Commencement Permit and other construction approvals and the construction of the property is legal and valid.
 - d. the mortgage mentioned in note 5 has been registered with relevant authority and it is legal and valid.
 - e. the actual use of the parcel of land of the property is complied with its prescribed usage.

VALUATION CERTIFICATE

Group III – Property interest held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of 31 December 2010 RMB
6.	A parcel of land located at the western side of Huanghe Wu Road Economic Development Zone Binzhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 284,924 sq.m.</p> <p>The property is planned to be constructed into an industrial development with a total gross floor area of approximately 303,766 sq.m.</p> <p>The development is scheduled to be commenced in January 2011 and completed in July 2011. And the total construction cost is estimated to be approximately RMB1,197,000,000.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 6 December 2060 for industrial use.</p>	The property was vacant as at the date of valuation.	<p>96,874,000</p> <p>100% interest attributable to the Group: RMB96,874,000</p>

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 6 December 2010, the land use rights of a parcel of land with a site area of approximately 284,924 sq.m. were contracted to be granted to Binzhou Zhengtong New Aluminum Section Co., Ltd. (“Zhengtong Aluminum”, a wholly-owned subsidiary of the Company) for a term of 50 years for industrial use. The consideration was RMB70,034,319.2.
2. Pursuant to a State-owned Land Use Rights Certificate – Bin Guo Yong (2010) Di No. K0240, the land use rights of a parcel of land with a site area of approximately 284,924 sq.m. were granted to Zhengtong Aluminum for a term of 50 years expiring on 6 December 2060 for industrial use.
3. Pursuant to a Construction Work Planning Permit – Bin Kai Gui Jian Zi Di No. 3716002010011 in favor of Zhengtong Aluminum, various buildings with a total gross floor area of approximately 302,766 sq.m. have been approved for construction.
4. Pursuant to a Construction Work Commencement Permit – Bin Kai Jian Zhong Zi (2010) No. 020 in favor of Zhengtong Aluminum, permission by the relevant local authority was given to commence the construction work.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Zhengtong Aluminum has legally obtained the state-owned land use rights of the property and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of it in accordance with the valid term and usage stipulated by the state-owned land use rights certificate.
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances that may have material adverse effect on it.
 - c. the property is neither subject to any guarantee, mortgage, sequestration or other rights restriction nor any third party’s rights.
 - d. the actual use of the parcel of land of the property is complied with its prescribed usage.
 - e. Zhengtong Aluminum has legally obtained the Construction Work Planning Permit and Construction Work Commencement Permit and the construction of the property is legal and valid.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on February 9, 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on March 8, 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or

territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly

in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 June 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on February 9, 2010. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on May 18, 2010, and our Company's principal place of business in Hong Kong is at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Mr. Lam Shui Yuen of Room 2204, 22nd Floor., Fu Fai Commercial Centre, 27 Hillier Street, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and its constitution which comprises a memorandum of association and articles of association. A summary of certain provisions of the Memorandum and the Articles of our Company and of certain aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

- (a) As of the date of incorporation of our Company, its authorized share capital was US\$50,000 divided into 50,000 shares of US\$1.00 each and 100 shares were issued, of which 1 share and 99 shares were allotted and issued to Offshore Incorporation (Cayman) Limited (as nominee) and Hongqiao Holdings, respectively. Offshore Incorporation (Cayman) Limited transferred the one share held by it to Hongqiao Holdings at the nominal value of US\$1.00 on the same day.
- (b) On April 13, 2010, the Company has agreed to issue and allot 9,900 Shares to Hongqiao Holdings at a consideration of RMB3,193,920,500.
- (c) On June 7, 2010, the par value of our Shares has been changed from US\$1.00 to US\$0.01 and therefore, the Shares held by Hongqiao Holdings increased to 1,000,000 from 10,000.

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the authorized share capital of the Company will be US\$100,000,000 divided into 10,000,000,000 Shares, of which 5,885,000,000 Shares will be issued fully paid or credited as fully paid, and 4,115,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011" in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Hongqiao Investment

- (a) On February 5, 2010, Hongqiao Investment, a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the BVI.

- (b) On February 9, 2010, 100 shares of US\$1.00 each in Hongqiao Investment were allotted and issued, credited as fully paid, to our Company for a consideration of US\$100.
- (c) On April 13, 2010, 100 shares of US\$1.00 each in Hongqiao Investment were allotted and issued to our Company for a consideration of RMB3,193,920,500.

Hongqiao Hong Kong

- (a) On February 18, 2010, Hongqiao Hong Kong, a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in Hong Kong.
- (b) On February 18, 2010, 10,000 shares of HK\$1.00 each in Hongqiao Hong Kong were allotted and issued, credited as fully paid, to Hongqiao Investment for a consideration of HK\$10,000.
- (c) On April 13, 2010, 100 shares of HK\$1.00 each in Hongqiao Hong Kong were allotted and issued to Hongqiao Investment for a consideration of RMB3,193,920,500.

Shandong Hongqiao

- (a) On March 9, 2010, Hongqiao Hong Kong entered into an equity transfer agreement with Profit Long Investment and Chuangye Group to acquire their respective 98% and 2% equity interests in Shandong Hongqiao for a consideration of RMB 3,193,920,500 and RMB 65,182,000, respectively.
- (b) On March 16, 2010, the registered capital of Shandong Hongqiao was increased to US\$110,000,000.

Zhengtong

On March 25, 2010, Aluminum & Power, a wholly-owned subsidiary of Shandong Hongqiao, entered into an equity transfer agreement with Ms. Zheng, Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛), Ms. Ma Guixia (馬桂霞), Gaoxin Aluminum & Power to acquire their respective 25%, 15%, 20%, 20%, 20% equity interests in Zhengtong for a consideration of RMB51,250,000, RMB30,750,000, RMB41,000,000, RMB41,000,000, RMB41,000,000, respectively.

Save as set out below and in the paragraph headed “Reorganization” in this Appendix, there has been no alteration in the share capital of any of our subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our sole Shareholder passed on January 16, 2011 and March 8, 2011

Pursuant to the written resolutions of our sole Shareholder entitled to vote at general meetings of our Company, which were passed on January 16, 2011 and March 8, 2011, respectively:

- (a) our Company approved and adopted the Articles of Association taking effect upon Listing;
- (b) the authorized share capital of our Company be increased from US\$50,000 divided into 5,000,000 Shares to US\$100,000,000 divided into 10,000,000,000 Shares by the creation of 9,995,000,000 Shares;
- (c) conditional on the share premium account of our Company being credited as a result of the Global Offering Offer, the sum of US\$49,990,000 be capitalized and be applied in paying up in full at par 4,999,000,000 Shares for allotment and issue to the Shareholders whose names were on the register of members of our Company as of the close of business on March 8, 2011 and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

- (d) conditional upon (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the Capitalization Issue and the Over-allotment Option) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, the Global Offering and the Over-allotment Option were approved and the Directors were authorized to approve to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
- (e) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, any exercise of rights to subscribe for Shares under options and warrants or a special authority granted by the Shareholders in general meeting) with an aggregate nominal value of not more than 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option);
- (f) a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Hong Kong Stock Exchange) with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option),

each of the general mandates referred to in paragraphs (e), (f) and (g) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold our next annual general meetings; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

(1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on January 16, 2011 and March 8, 2011 by all our sole Shareholder, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Hong Kong Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue, details of which have been described above in the paragraph headed "Written resolutions of our sole Shareholders passed on January 16, 2011 and March 8, 2011".

(ii) Source of funds

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules, the Companies Law and the laws of the Cayman Islands. We are not permitted to repurchase our Shares on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(2) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(3) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands. If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. REORGANIZATION

Pursuant to the Reorganization, which was effected in preparation for the Listing, the Company became the holding company of the Group. For details of the Reorganization, please refer to the section headed "History and Reorganization" in this prospectus. The major steps of the reorganization involved the followings:

- (a) On February 5, 2010, Hongqiao Holdings was incorporated in the BVI with limited liability and is authorized to issue a maximum of 50,000 shares of US\$1.00 each.
- (b) On February 5, 2010, Mr. Zhang subscribed for 100 shares of US\$1.00 in Hongqiao Holdings and became the sole shareholder of Hongqiao Holdings which is used to hold his interests in our Group.
- (c) On February 5, 2010, Hongqiao Investment was incorporated in the BVI with limited liability and is authorized to issue a maximum of 50,000 shares of US\$1.00 each.
- (d) On February 9, 2010, our Company subscribed for 100 shares of US\$1.00 in Hongqiao Investment, which became our wholly-owned subsidiary.
- (e) On February 9, 2010, our Company was incorporated in Cayman Islands as an exempted company with limited liability to act as the ultimate holding company for the subsidiaries in our Group. As of the date of incorporation, the authorized share capital of the Company was US\$50,000 divided into 50,000 shares of US\$1.00 each and the issued shares of our Company were 100 shares, of which 1 share and 99 shares were allotted and issued, credited as fully paid, to Offshore Incorporation (Cayman) Limited (as nominee) and Hongqiao Holdings, respectively. On the same date, Offshore Incorporation (Cayman) Limited transferred the one share held by it to Hongqiao Holdings at the nominal value of US\$1.00.

- (f) On February 18, 2010, Hongqiao Hong Kong was incorporated in Hong Kong as a limited liability company with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. At the time of its incorporation, 10,000 shares of Hongqiao Hong Kong were allotted and issued, credited as fully paid, to Hongqiao Investment.
- (g) On March 9, 2010, Hongqiao Hong Kong entered into an equity transfer agreement with Profit Long Investment and Chuangye Group, pursuant to which Profit Long Investment and Chuangye Group agreed to transfer their respective 98% and 2% equity interests in Shandong Hongqiao to Hongqiao Hong Kong at a consideration of RMB3,193,920,500 and RMB65,182,000, respectively. The consideration was determined with reference to the appraised value of the net assets of Shandong Hongqiao as of December 31, 2009 as indicated in the appraisal reports prepared by Shandong Huayong Assets Appraisal Co., Ltd (山東華永資產評估有限公司). After the aforesaid transfers, Shandong Hongqiao became an indirect wholly-owned subsidiary of our Company.
- (h) On February 25, 2010, Shandong Hongqiao and Huibin Dyeing entered into an equity transfer agreement, pursuant to which Shandong Hongqiao agreed to transfer 100% equity interest in Marine Chemical to Huibin Dyeing at a consideration of RMB600 million. The consideration was determined with reference to the registered capital of Marine Chemical immediately prior to the share transfer. After the aforesaid transfer, Marine Chemical became a wholly-owned subsidiary of Huibin Dyeing and ceased to be a member of our Group.
- (i) On March 25, 2010, Ms. Zheng, Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛), Ms. Ma Guixia (馬桂霞), Gaoxin Aluminum & Power and Aluminum & Power entered into an equity transfer agreement, pursuant to which Ms. Zheng, Ms. Jiang Jianling (姜建玲), Mr. Yang Shaogang (楊紹剛), Ms. Ma Guixia (馬桂霞) and Gaoxin Aluminum & Power agreed to transfer all of their respective equity interests in Zhengtong to Aluminum & Power at an aggregate consideration of RMB205 million. The consideration was determined with reference to the appraised value of the net assets of Zhengtong. After the aforesaid transfers, Zhengtong became an indirect wholly-owned subsidiary of our Company.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a set-off agreement dated May 25, 2009 entered into by Chuangye Group, Aluminum Technology and Aluminum & Power, pursuant to which (i) Chuangye Group assumed the accounts payable due from Aluminum & Power to Aluminum Technology in the amount of RMB770,285,395.19; (ii) Chuangye Group agreed to pay RMB465,232,177.47 to Aluminum Technology as prepayment for purchase of raw materials by Aluminum & Power; (iii) the accounts payable of RMB1,235,517,572.66 due from Aluminum Technology to Chuangye Group was set off in full; and (iv) the accounts receivable due from Chuangye Group to Aluminum & Power was reduced from RMB3,196,885,184.96 to RMB1,961,367,612.30;
- (b) an equity transfer framework agreement dated December 28, 2009 entered into among Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment (stated as 香港保恒俐投資有限公司 in the agreement) and Chuangye Group, in relation to the conditional transfer of the entire equity interest in Marine Chemical from Shandong Hongqiao to Huibin Dyeing;
- (c) an asset swap agreement dated January 4, 2010 entered into between Shandong Hongqiao and Chuangye Group, in relation to Shandong Hongqiao's acquisition of the aluminum production assets from Chuangye Group in consideration for Shandong Hongqiao transferring its dyeing and printing assets and a payment of RMB1,154,276,968 to Chuangye Group;







- (d) an equity transfer agreement dated February 25, 2010 entered into between Shandong Hongqiao and Huibin Dyeing, pursuant to which Shandong Hongqiao transferred its entire equity interest in Marine Chemical to Huibin Dyeing at a consideration of RMB600 million;
- (e) a supplemental agreement to the agreement as described in paragraph (d) dated February 25, 2010 entered into between Shandong Hongqiao, Huibin Dyeing and Chuangye Group, pursuant to which Huibin Dyeing agreed to pay the RMB600 million consideration (as described in paragraph (d)) to Chuangye Group for setting off certain outstanding repayments of Shandong Hongqiao owed to Chuangye Group;
- (f) an equity transfer agreement dated March 9, 2010 entered into between Hongqiao Hong Kong and Profit Long Investment (stated as (香港)保恒俐投資有限公司 in the agreement), pursuant to which Profit Long Investment transferred 98% equity interest in Shandong Hongqiao to Hongqiao Hong Kong at a consideration of RMB3,193,920,500;
- (g) an equity transfer agreement dated March 9, 2010 entered into between Hongqiao Hong Kong and Chuangye Group, pursuant to which Chuangye Group transferred 2% equity interest in Shandong Hongqiao to Hongqiao Hong Kong at a consideration of RMB65,182,000;
- (h) a facility letter dated March 9, 2010 issued by China Merchants Bank Co., Ltd., Hong Kong Branch (“CMBHK”) to our Company, pursuant to which CMBHK conditionally offered our Company, and our Company accepted, general banking facilities of up to US\$26,000,000 (or 95% of the amount of the relevant standby letter of credit issued by China Merchants Bank Co., Ltd., Shenzhen Branch in favour of CMBHK, whichever is lower) at an interest rate of 6-month LIBOR plus 1.5% per annum or China Merchants Bank Hong Kong Branch’s cost of funds plus 1.5% per annum, whichever is higher;
- (i) a loan agreement dated March 9, 2010 entered into by Profit Long Investment and our Company, pursuant to which our Company agreed to lend US\$8,100,000 to Profit Long Investment;
- (j) a trademark license agreement dated March 11, 2010 entered into between Shandong Hongqiao and Aluminum Technology, pursuant to which Aluminum Technology has granted an irrevocable and exclusive license to Shandong Hongqiao to use a certain trademark at nil consideration;
- (k) an equity transfer agreement dated March 25, 2010 entered into between Aluminum & Power and Ms. Zheng, pursuant to which Ms. Zheng transferred 25% equity interest in Zhengtong to Aluminum & Power at a consideration of RMB51,250,000;
- (l) an equity transfer agreement dated March 25, 2010 entered into between Aluminum & Power and Ms. Jiang Jianling (姜建玲), pursuant to which Ms. Jiang Jianling transferred 15% equity interest in Zhengtong to Aluminum & Power at a consideration of RMB30,750,000;
- (m) an equity transfer agreement dated March 25, 2010 entered into between Aluminum & Power and Mr. Yang Shaogang (楊紹剛), pursuant to which Mr. Yang Shaogang transferred 20% equity interest in Zhengtong to Aluminum & Power at a consideration of RMB41,000,000;
- (n) an equity transfer agreement dated March 25, 2010 entered into between Aluminum & Power and Ms. Ma Guixia (馬桂霞), pursuant to which Ms. Ma Guixia transferred 20% equity interest in Zhengtong to Aluminum & Power at a consideration of RMB41,000,000;
- (o) an equity transfer agreement dated March 25, 2010 entered into between Aluminum & Power and Gaoxin Aluminum & Power, pursuant to which Gaoxin Aluminum & Power transferred 20% equity interest in Zhengtong to Aluminum & Power at a consideration of RMB41,000,000;
- (p) a deed of assignment dated April 13, 2010 entered into among the Company, Mr. Zhang, Profit Long Investment, Hongqiao Investment and Hongqiao Hong Kong, pursuant to which Profit Long Investment agreed to assign all rights and entitlement to receive the consideration of RMB3,193,920,500 owed to Profit Long Investment by Hongqiao Hong Kong to Mr. Zhang, in relation to the disposal of 98% equity interest in Shandong Hongqiao by Profit Long Investment as described in paragraph (f) above, and in return, Mr. Zhang agreed to pay RMB3,193,920,500 to Profit Long Investment as consideration for such assignment;

- (q) a share subscription agreement dated April 13, 2010 entered into among Mr. Zhang, Hongqiao Investment, Hongqiao Hong Kong, the Company and Hongqiao Holdings, pursuant to which the Company agreed to allot and issue, credited as fully paid, 9,900 Shares to Hongqiao Holdings for setting off certain liability of Hongqiao Hong Kong owed to Mr. Zhang;
- (r) a loan agreement dated May 15, 2010 entered into between our Company and Winning Shipping (HK) Company Limited, pursuant to which Winning Shipping agreed to advance US\$10,500,000 to our Company for a term of two years without interest (other than interest at a rate of 4% per annum which will be payable if the principal is not repaid within two years);
- (s) a three-party agreement dated June 30, 2010 entered into by Chuangye Group, Aluminum & Power and Gaoxin Aluminum & Power, pursuant to which Aluminum & Power assigned to Gaoxin Aluminum & Power net trade receivables in the amount of RMB58,310,976.34 due from Chuangye Group as prepayment for purchase of alumina by Aluminum & Power from Gaoxin Aluminum & Power;
- (t) a banking facilities letter dated November 24, 2010 issued by Industrial and Commercial Bank of China (Asia) Limited (“ICBC”) to our Company, pursuant to which ICBC offered our Company, and our Company accepted, a banking facility of US\$12,000,000 at an interest rate of 1.5% per annum above ICBC’s one-month, two-month or three-month London Interbank Offered Rate, or at other rates that ICBC may quote in accordance with prevailing money market conditions;
- (u) the Non-Competition Deed;
- (v) the Deed of Indemnity;
- (w) a placing agreement dated March 9, 2011 between our Company, Chow Tai Fook Nominee Limited, J.P. Morgan Securities (Asia Pacific) Limited, BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Bank PLC, as referred to in the paragraph headed “Cornerstone Placing” in the section headed “Cornerstone Investors”;
- (x) a placing agreement dated March 9, 2011 between our Company, Chosen Elite Limited, J.P. Morgan Securities (Asia Pacific) Limited, BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Bank PLC, as referred to in the paragraph headed “Cornerstone Placing” in the section headed “Cornerstone Investors”;
- (y) a placing agreement dated March 9, 2011 between our Company, Mr. Joseph Lau, Luen-Hung, J.P. Morgan Securities (Asia Pacific) Limited, BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Bank PLC, as referred to in the paragraph headed “Cornerstone Placing” in the section headed “Cornerstone Investors”;
- (z) a placing agreement dated March 9, 2011 between our Company, High Action Limited, J.P. Morgan Securities (Asia Pacific) Limited, BOCOM International Securities Limited, ICBC International Capital Limited, Mizuho Securities Asia Limited, BNP Paribas Capital (Asia Pacific) Limited and Barclays Bank PLC, as referred to in the paragraph headed “Cornerstone Placing” in the section headed “Cornerstone Investors”; and
- (aa) the Hong Kong Underwriting Agreement.



2. Intellectual Property Rights of our Group

Trademarks

As of the Latest Practicable Date, we have the right to use the following trademarks:

Trademark	Class	Registration Number	Place of Registration	Expiry Date
	6	301570004	Hong Kong	March 22, 2020
	6	301569998	Hong Kong	March 22, 2020
	6	301569989	Hong Kong	March 22, 2020
	6	301569970	Hong Kong	March 22, 2020
HONGQIAO	6	301569952	Hong Kong	March 22, 2020
	6	301569961	Hong Kong	March 22, 2020
	6	301569943	Hong Kong	March 22, 2020

As at the Latest Practicable Date, the Group has filed application for the following trademarks:

Trademark	Applicant	Class	Place of Application	Application Number	Application Date
	Shandong Hongqiao	6	PRC	8121836	March 15, 2010
HONGQIAO	Shandong Hongqiao	6	PRC	8121856	March 15, 2010
	Shandong Hongqiao	6	PRC	8164393	March 30, 2010

Domain Names

As of the Latest Practicable Date, we have registered the following domain name:

Registrant	Domain Name	Date of Expiry
Shandong Hongqiao	Hongqiaochina.com	February 10, 2014
Shandong Hongqiao	Hongqiao-china.com	February 10, 2014
Shandong Hongqiao	Hongqiaoxc.com	February 10, 2014
Shandong Hongqiao	Hongqiaogroup.cn	May 20, 2011

3. Further information about our PRC establishments

(a) Shandong Hongqiao

- | | |
|---|--|
| (i) nature of the company: | (A) Wholly foreign-owned enterprise |
| (ii) term of business operation: | (B) 30 years commencing on July 27, 1994 and expiring on July 26, 2024 |
| (iii) total investment: | (C) US\$114.6 million |
| (iv) registered capital: | (D) US\$110 million |
| (v) attributable interest of the company: | (E) 100% |
| (vi) scope of business: | (F) Aluminum ore (bauxite) trading; processing and distribution of aluminum ingot, aluminum plate, aluminum foil, aluminum tape, aluminum product and aluminum section |

(b) Aluminum & Power

- | | |
|--|--|
| (i) nature of the company: | (A) Limited liability company |
| (ii) term of business operation: | (B) N/A |
| (iii) registered capital: | (C) RMB 5 billion |
| (iv) attributable interest of the company: | (D) 100% |
| (v) scope of business: | (E) production of thermal power (for its own use), fly ash, fly ash hollow brick and colored high strength paving tile; trade and processing of aluminum ore (bauxite), alumina production by complex utilization of fly ash and alumina distribution; processing and distribution of aluminum ingot, aluminum plate, aluminum foil, aluminum tape and aluminum product; export and import business within the registered scope; |

(c) Zhengtong

- | | |
|----------------------------------|-------------------------------|
| (i) nature of the company: | (A) Limited liability company |
| (ii) term of business operation: | (B) N/A |
| (iii) registered capital: | (C) RMB 200 million |

-
- | | |
|--|--|
| (iv) attributable interest of the company: | (D) 100% |
| (v) scope of business: | (E) distribution of aluminum plate, aluminum foil, aluminum tape, aluminum product; import and export business within the approved scope (except for commodities that are restricted or prohibited from import and export) |
-

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of our Directors has entered into a service contract with us for an initial fixed term of three years commencing from Listing Date and will continue thereafter until terminated by not less than one-month notice in writing served by either party on the other or in accordance with the terms of the service contract.

Each of our Directors is entitled to the respective basic salary set out below (subject to adjustments in accordance with the resolutions passed by the remuneration committee of the Company and the Shareholders from time to time). Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of audited consolidated or combined net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. Directors may not vote on any resolution of the Directors regarding the increment of annual salary payable to him.

The current basic annual salaries of the executive Directors are as follows:

Name	Annual Amount
Mr. Zhang Shiping	RMB1,500,000
Ms. Zheng Shuliang	RMB500,000
Mr. Zhang Bo	RMB800,000
Mr. Qi Xingli	RMB700,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended December 31, 2007, 2008 and 2009, the aggregate remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB55,000, RMB58,000 and RMB57,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ended December 31, 2010 will be approximately RMB5,213,000.

E. DISCLOSURE OF INTERESTS**1. Disclosure of Interests****(a) Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering and the Capitalization Issue**

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in the shares, underlying shares and debentures of our Company or any associated corporation, within the meaning of Part XV of the SFO which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding (%)
Mr. Zhang Shiping	Interest in a controlled corporation	5,000,000,000	84.96

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, so far as our Directors are aware, the following persons are expected to have interests or short positions in the shares or underlying shares of our Company which are required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, 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 member of our Group.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding (%)
Mr. Zhang Shiping ⁽¹⁾	Interest in a controlled corporation	5,000,000,000	84.96
Ms. Zheng Shuliang ⁽²⁾	Interest of spouse	5,000,000,000	84.96
Hongqiao Holdings	Beneficial owner	5,000,000,000	84.96

Notes:

- (1) Mr. Zhang is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the Shares held by Hongqiao Holdings.
- (2) Ms. Zheng, the spouse of Mr. Zhang, is deemed to be interested in all the Shares in which Mr. Zhang is interested.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Global Offering and the Capitalization Issue (taking no account of the Over-allotment Option), have an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be 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 member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the section headed “Other Information – Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of the Directors nor any of the parties listed in the section headed “Other Information – Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other Information – Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries; and
- (f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. OTHER INFORMATION

1. Tax and other indemnity

Each of Mr. Zhang and Hongqiao Holdings has entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (v) referred to in paragraph C in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for any form of taxation whenever created or imposed and whether of Hong Kong, the PRC or any other part of the world including, without limitation, Hong Kong estate duty, profit tax, interest tax and income tax (“Liability”).

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands and the British Virgin Islands, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

The deed of indemnity does not cover any Liability:

- (a) to the extent that provision for such Liability or claim has been included in the consolidated audited accounts of our Company or the audited accounts of the relevant Group members as of September 30, 2010;
- (b) to the extent that such taxation or Liability falling on any of the members of our Group in respect of any accounting period commencing after September 30, 2010 would not have arisen but for any act or omission of, or transaction voluntarily carried out or effected by, any of such members, other than any such act, omission or transaction carried out in the ordinary course of business and before the date on which the deed of indemnity becomes unconditional;
- (c) to the extent that such claim arises or is incurred as a result of the imposition of Liability as a consequence of any retrospective change in the law or the interpretation or practice thereof by any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of Liability after such date with retrospective effect; or
- (d) to the extent that any provision or reserve made for such Liability in the audited accounts of any member of our Group up to September 30, 2010 which is finally established to be an over-provision or an excessive reserve in which case the liability of Mr. Zhang and Hongqiao Holdings (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve.

2. Litigation

As of the Latest Practicable Date, save as disclosed in this prospectus, neither we nor any of our subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Application for listing of Shares

The Sole Sponsor made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Global Offering and the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

4. Waiver from strict compliance with Rule 4.04(1) of the Listing Rules and exemption from strict compliance with paragraphs 27 and 31 of the third schedule to the Companies Ordinance

Paragraph 27 of the Third Schedule to the Companies Ordinance prescribes that a statement as to the gross trading income or sales turnover of the company during the three preceding years as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities, be included in a prospectus. Paragraph 31 of the Third Schedule to the Companies Ordinance further prescribes that a report by the auditors of the company with respect to (i) the profits and losses of the company for each of the three financial years immediately preceding the issue of a prospectus; and (ii) the assets and liabilities of the company at the last date to which the accounts of the company were made up, be included in a prospectus.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended December 31, 2010 in this prospectus on the ground that it would be unduly burdensome for us. A certificate of exemption has been granted by the SFC under section 342A of the Companies Ordinance on the condition that (i) particulars of the exemption are set out in this prospectus; and (ii) this prospectus will be issued by March 14, 2011.

Rule 4.04(1) of the Listing Rules states that the accountants' report must include, inter alia, "the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries in respect of each of the three financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Exchange".

An application has also been made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the ground that it would be unduly burdensome for us to do so within a short period of time after December 31, 2010. A waiver has been granted by the Hong Kong Stock Exchange on the condition that (i) the grant of a certificate of exemption from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance by the Securities and Futures Commission; and (ii) listing of the shares of our Company on the Hong Kong Stock Exchange will commence on or before March 31, 2011.

Although we do not include an accountant's report for the year ended December 31, 2010 in the prospectus due to time constraint, we expect to publish our preliminary results for the same period on March 31, 2011 pursuant to Rule 13.49 of the Listing Rules.

Having regard to the demand for and prices of aluminium products, the expansion of the Group's production capacity, prices of raw materials, electricity and coal prices and the business environment in the PRC, our Directors confirm that up to the Latest Practicable Date, there has been no material adverse change in our financial and trading position or prospects since September 30, 2010 and there is no event since September 30, 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus. Our Directors consider that all the information necessary for the investment public to make an informed assessment of the business activities and financial position of our Group has been included in this prospectus and that an exemption from compliance with the above accounting period requirement would not prejudice the interest of the investment public.

5. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$36,500 and have been paid by us.

6. Promoter

The Company has no promoter for the purpose of the Listing Rule.

7. No material adverse change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since September 30, 2010 (being the date to which our latest audited combined financial statements were made up).

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) we have no outstanding convertible debt securities; and
- (h) there has been no interruption in the business of our Group which had or may have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

10. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
J.P. Morgan Securities (Asia Pacific) Limited	Licensed under the SFO for type 1 (dealing in securities, type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Jones Lang LaSalle Sallmanns Limited	Independent professional property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Zong Heng Law Firm	PRC legal advisors to our Company
Tian Yuan Law Firm	PRC legal advisors to our Company
Orrick, Herrington & Sutcliffe	Hong Kong legal advisors to our Company
Clifford Chance	Hong Kong legal advisors to the Sole Sponsor

11. Consents of experts

Each of J.P. Morgan Securities (Asia Pacific) Limited, Deloitte Touche Tohmatsu, Jones Lang LaSalle Sallmanns Limited, Conyers Dill & Pearman, Zong Heng Law Firm, Tian Yuan Law Firm, Orrick, Herrington & Sutcliffe and Clifford Chance has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 am to 5:00 pm up to and including March 27, 2011:

- (1) the Memorandum and the Articles of our Company;
- (2) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements of companies comprising the Group for the three years ended December 31, 2009 and the nine months ended September 30, 2010, where applicable;
- (4) the letter received from Deloitte Touche Tohmatsu on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the letters from Deloitte Touche Tohmatsu and the Sole Sponsor relating to the profit estimate, the texts of which are set out in Appendix III to this prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;
- (7) the material contracts referred to in the paragraph headed “Summary of the material contracts” of Appendix VI to this prospectus;
- (8) the service contracts of our Directors referred to in the paragraph headed “Directors’ service contracts” of Appendix VI to this prospectus;
- (9) the written consents referred to in the paragraph headed “Consents of experts” of Appendix VI to this prospectus;
- (10) the legal opinions prepared by Zong Heng Law Firm, our legal advisors as to the PRC law, in respect of certain aspects of our Group and our the property interests;
- (11) the legal opinions prepared by Tian Yuan Law Firm, our legal advisors as to the PRC law only in respect of certain PRC legal issues as disclosed in the section headed “Risk Factors – Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports or other publicly available information without carefully considering the risks and other information contained in this prospectus” of this prospectus;
- (12) the legal opinions prepared by Orrick, Herrington & Sutcliffe, our legal advisors as to the laws of Hong Kong, referred to in the paragraph headed “History and Reorganization – Shareholding History of Our PRC Subsidiaries – (1) Shandong Hongqiao” of this prospectus;
- (13) the legal opinions prepared by Clifford Chance, the legal advisors of the Sole Sponsor as to the laws of Hong Kong, referred to in the paragraph headed “History and Reorganization – Shareholding History of Our PRC Subsidiaries – (1) Shandong Hongqiao” of this prospectus;
- (14) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix V to this prospectus; and
- (15) the Companies Law.



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