This announcement is for information purposes only and does not constitute an invitation or solicitation of an offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities.

*This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the Company making the offer and its management and, financial statements. The Company does not intend to make any public offering of securities in the United States. None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed to any connected persons of the Company.*

This announcement is not for distribution, directly or indirectly, in or into the United States.

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)

PROPOSED ISSUANCE OF SENIOR NOTES

The Company proposes to conduct an international offering of senior notes consisting of a tranche denominated and settled in US dollars or a tranche denominated and settled in Renminbi on substantially similar terms, or a combination of both, and intends to commence a series of meetings beginning on or after July 12, 2011 with institutional investors in Asia, Europe and the United States. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including updated risk factors, a description of the Company's business and strategies, management's discussion and analysis of financial condition and result of operations, material indebtedness and related party transactions as well as the unaudited interim financial report of the Company for the three months ended March 31, 2011. An extract of such information is attached to this announcement, and will also be available at the Company's website at www.hongqiaochina.com at approximately the same time that such information is released to the institutional investors. Some of this information has not previously been made public.

The completion of the Proposed Notes Issue is subject to market conditions and investor interest and the offering of the two tranches of senior notes are not inter-conditional. The pricing of the Notes, including the aggregate principal amount, the Offer Price and interest rates, will be determined through a book building exercise conducted by J.P. Morgan, Barclays Capital and Deutsche Bank as the joint bookrunners and joint lead managers.

Upon finalization of the terms of either or both tranches of the Notes, J.P. Morgan, Barclays Capital, Deutsche Bank and the Company, among others, will enter into a Purchase Agreement for each tranche of the Notes as applicable and other ancillary documents. The Company currently intends to use the proceeds from the Proposed Notes Issue to expand its electricity production facilities to approximately 2,400 MW of total installed capacity.

Approval in-principle has been obtained for the listing of the Notes on the SGX-ST. Admission of the Notes to the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, or the Notes. No listing of the Notes has been sought in Hong Kong.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not be completed. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should a Purchase Agreement be signed.

THE PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of senior notes consisting of a tranche denominated and settled in US dollars or a tranche denominated and settled in Renminbi on substantially similar terms, or a combination of both, and intends to commence a series of meetings beginning on or after July 12, 2011 with institutional investors in Asia, Europe and the United States. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including updated risk factors, a description of the Company's business and strategies, management's discussion and analysis of financial condition and result of operations, material indebtedness and related party transactions as well as the unaudited interim financial report of the Company for the three months ended March 31, 2011. An extract of such information is attached to this announcement, and will also be available at the Company's website at www.hongqiaochina.com at approximately the same time that such information is released to the institutional investors. Some of this information has not previously been made public.

The completion of the Proposed Notes Issue is subject to market conditions and investor interest and the offering and completion of the two tranches of the Notes are not inter-conditional. The pricing of the Notes, including the aggregate principal amount, the Offer Price and interest rates, will be determined through a book building exercise conducted by J.P. Morgan, Barclays Capital and Deutsche Bank as the joint bookrunners and joint lead managers. Upon the finalization of the terms of either or both tranches of the Notes, J.P. Morgan, Barclays Capital, Deutsche Bank and the Company, among others, will enter into a Purchase Agreement for each tranche of the Notes as applicable and other ancillary documents, pursuant to which, J.P. Morgan, Barclays Capital and Deutsche Bank will be the initial purchasers of the Notes.

The Proposed Notes Issue will only be offered (i) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act under Rule 144A (in respect of the tranche denominated and settled in US dollars only), and (ii) outside the United States, in compliance with Regulation S under the Securities Act (in respect of both tranches of the Notes). None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed to any connected persons of the Company.

Reasons for the Proposed Notes Issue

The Group is the fourth-largest aluminum product manufacturer in China, which is the largest fastest growing major aluminum market in the world in terms of designed annual aluminum production capacity as of March 31, 2011, according to Antaike.

The Company currently intends to use the proceeds from the Proposed Notes Issue to expand its electricity production facilities to approximately 2,400 MW of total installed capacity.

Listing

Approval in-principle has been obtained for the listing of the Notes on the SGX-ST. Admission of the Notes to the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, or the Notes. No listing of the Notes has been sought in Hong Kong.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not be completed. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

A further announcement in respect of the Proposed Notes Issue will be made by the Company should any Purchase Agreement be signed.

UPDATED INFORMATION OF THE GROUP

Overview

The Group is the fourth-largest aluminum product manufacturer in China, which is the largest and fastest growing major aluminum market in the world in terms of designed annual aluminum production capacity as of March 31, 2011, according to Antaike. China has been the largest aluminum consumer globally since 2005 and consumed in 2010 approximately 41.4% of world total consumption, according to Antaike.

The Group is strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes Gaoxin, its primary raw material supplier, and a majority of its down-stream users, which it believes provides the Group with substantial cost and operational advantages and results in other synergies. Shandong Province is one of the major aluminum product manufacturing bases in China, where a number of downstream aluminum fabrication product manufacturers are based. The Group is 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. Due to their close proximity to the Group, its molten aluminum alloy customers avoid transportation costs and costs associated with smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs.

The Group has three manufacturing bases, its Zouping, Weiqiao and Binzhou manufacturing bases. As of March 31, 2011, these manufacturing bases had an aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products. The Group is in the process of expanding its manufacturing bases to increase its production capacity. Through this expansion, its aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. As its three manufacturing bases are in close geographic proximity to each other (within 80 km of each other) and are connected by its private power supply grid, the Group enjoys cost advantages and high operational efficiency through centralized power supply management and centralized procurement of raw materials and electricity. Its designed production capacity of aluminum products on a weighted average annualized basis was approximately 601,085 tons, 738,973 tons, 970,496 tons and 1,231,664 tons for the three years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, with utilization rates of approximately 102.6%, 98.3%, 110.9% and 111.7%, respectively, during the same periods.

The aluminum products of the Group consist of molten aluminum alloy, aluminum alloy ingots and aluminum busbars. The Group began manufacturing aluminum products in 2006 by using self-manufactured primary aluminum. The aluminum products of the Group are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction.

The Group has achieved significant growth in its sales volume of aluminum products since its inception and over the past three years. The Group sold approximately 610,057 tons, 731,043 tons, 1,064,775 tons and 342,116 tons of aluminum products for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and generated revenue of approximately RMB8,772.2 million, RMB8,668.4 million, RMB14,453.9 million and RMB4,889.0 million (US$746.6 million) for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

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

	Year ended December 31,											
	2008				2009				2010			
	Volume (tons)	Revenue (RMB in millions)	Average Selling Price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average Selling Price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average Selling Price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	903,099	12,204.1	13,514	80.7%
Aluminum alloy ingot	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	157,240	2,183.0	13,883	14.4%
Aluminum busbar	–	–	–	–	7,159	90.2	12,609	1.0%	4,436	66.8	15,058	0.4%
Subtotal	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	1,064,775	14,453.9	13,575	95.5%
Steam	–	–	–	–	–	–	–	–	5,105,024	677.7	133	4.5%
Total		8,772.2		100.0%		8,668.4		100.0%		15,131.6		100.0%

	Three months ended March 31,							
	2010				2011			
	Volume (tons)	Revenue (RMB in millions)	Average Selling Price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average Selling Price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy	164,876	2,312.2	14,024	63.7%	261,455	3,742.8	14,315	73.9%
Aluminum alloy ingot	74,111	1,060.6	14,311	29.2%	80,661	1,146.2	14,210	22.6%
Aluminum busbar	4,436	66.8	15,058	1.9%	–	–	–	–
Subtotal	243,423	3,439.6	14,130	94.8%	342,116	4,889.0	14,290	96.5%
Steam	1,427,718	189.5	133	5.2%	1,326,290	176.0	133	3.5%
Total		3,629.1		100.0%		5,065.0		100.0%

Molten aluminum alloy is the major product of the Group, the sales of which accounted for approximately 56.5%, 61.5%, 84.4% and 76.6% of its revenue derived from aluminum products for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. Compared with the production of aluminum alloy ingots, the production of molten aluminum alloy allows the Group to avoid incurring significant molding and other relevant costs. By purchasing molten aluminum alloy, the customers of the Group avoid transportation costs and the cost of smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs. The Group is able to provide its customers with molten aluminum alloy due to its close proximity to them, which, the Group believes, provides it with significant cost and operational advantages and results in other synergies.

The Group benefits from arrangements in relation to the key inputs into its aluminum products. Chiefly, these include (i) cost advantages from the production of a significant amount of the electricity that the Group uses for the production of its aluminum products at its thermal power station, (ii) its self-owned power grid, (iii) cost advantages from purchasing off-grid electricity from Gaoxin, and (iv) pricing discounts resulting from its bulk purchases of alumina from its principal supplier of alumina, Gaoxin. In the three months ended March 31, 2011, the Group produced 44.8% of the electricity it used in its production of aluminum products at its thermal power station. The Group produced this electricity at a cost below the purchase price of electricity that it purchases externally. The remainder of the electricity requirements of the Group were purchased from Gaoxin pursuant to a direct power supply agreement and delivered via the self-owned power grid of the Group. The purchases of electricity of the Group from Gaoxin accounted for approximately 66.5% and 83.8% of their total electricity output for 2010 and the three months ended March 31, 2011, respectively. Due to the off-grid structure and bulk purchases of the Group, it has been able to purchase its electricity from Gaoxin at a cost below average on-grid electricity prices. Moreover, the Group purchased approximately 47.8% and 65.6% of the total volume of alumina sold by Gaoxin for 2010 and the first three months ended March 31, 2011, respectively. Due to the significant volume of alumina that the Group purchases from Gaoxin and Gaoxin's close proximity to the operations of the Group, the Group believes that it has been able to negotiate price discounts with respect to such alumina purchases. Gaoxin is an independent third party, in which the Labor Union Committee of Shandong Zouping Economic Development Zone holds substantially all of the beneficial interest. It has significant operations, including an aggregate installed capacity of 1,880 MW of electricity, an aggregate designed annual production capacity of 4,000,000 tons of alumina, over 8,300 employees and net assets as of March 31, 2011 of approximately RMB6.3 billion (US$962.1 million).

The Group sells all of its 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. The customers of the Group include downstream aluminum fabrication product manufacturers, who process the aluminum alloy products of the Group into aluminum fabrication products, and traders, who in turn resell its aluminum products to downstream aluminum fabrication product manufacturers or other traders. As of March 31, 2011, all of the molten aluminum alloy customers of the Group were located within 30 kilometers from it. 73.9% of its revenue for the three months ended March 31, 2011 was derived from the sales of molten aluminum alloy.

Recent developments

For the period from January 1, 2010 to March 31, 2011, Gaoxin had been the sole supplier of alumina of the Group. The Group recently entered into an alumina purchase agreement with an independent alumina supplier based in Qingdao, pursuant to which it will provide the Group with a total volume of 250,000 tons of alumina from April 2011 to December 2012. The first delivery was made in April 2011.

The Group has recently begun to develop production capacity for high-value-added aluminum foil products at its Binzhou manufacturing base. The aggregate designed annual production capacity of the Group for high-value-added aluminum foil products is expected to reach approximately 30,000 tons by the second half of 2012.

The Group has also recently begun construction to expand its electricity production facilities, which it expects to increase to approximately 2,400 MW of total installed capacity by the end of 2012.

The Group has been involved in certain legal proceedings relating to a boiler supply agreement dated June 26, 2007 between Aluminum & Power and Wuhan Boiler Company Limited ("**Wuhan Boiler**"). On March 4, 2011, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People's Court relating to this boiler supply agreement, seeking termination of this boiler supply agreement, forfeiture of the deposit made by Aluminum & Power to Wuhan Boiler in the amount of RMB10 million, the economic damages of approximately RMB67.4 million allegedly suffered by Wuhan Boiler as a result of the alleged breach of this boiler supply agreement by Aluminum & Power, and the relevant litigation expenses. The relevant documents in relation to these legal proceedings initiated by Wuhan Boiler were served to the Company on April 11, 2011. Please also refer to the announcement dated April 12, 2011 issued by the Company. As of the date of this announcement, neither Binzhou Intermediate People's Court nor Shandong Higher People's Court has delivered any judgment with respect to this case.

The Company completed its initial public offering and listed its Shares on the Stock Exchange in March 2011, raising net proceeds of approximately HK$6,209.4 million. As of July 8, 2011, the market capitalization of the Company was approximately HK$42.5 billion (US$5.5 billion), based on the closing price of the Shares.

Three months ended March 31, 2011 compared to three months ended March 31, 2010

Please refer to the unaudited interim financial report of the Company for the three months ended March 31, 2011 attached to this announcement showing the financial performance of the Group for the three months ended March 31, 2011.

Revenue

The revenue of the Group increased by approximately 39.6% to approximately RMB5,065.0 million (US$773.5 million) for the three months ended March 31, 2011 from approximately RMB3,629.1 million for the three months ended March 31, 2010, primarily due to an increase in its sales volume mainly driven by its increased production capacity and output. The sales volume of its aluminum products increased by approximately 40.5% to approximately 342,116 tons for the three months ended March 31, 2011 from approximately 243,423 tons for the three months ended March 31, 2010 primarily due to its increased production capacity and output and an increase in market demand as the PRC economy recovered. The average selling price of the aluminum products sold by the Group increased slightly during the same period from approximately RMB14,130 per ton to RMB14,290 per ton (US$2,182.3). The Group determined its selling price of aluminum products based on the spot market price, which was mainly driven by the demand for and supply of the aluminum products in the PRC.

For the three months ended March 31, 2011, the spot market price for aluminum products slightly 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. The revenue generated from the sale of steam decreased by approximately 7.1% to approximately RMB176.0 million (US$26.9 million) for the three months ended March 31, 2011 from approximately RMB189.5 million for the three months ended March 31, 2010 primarily due to a decrease in the demand for steam by Gaoxin.

Cost of sales

The Group's cost of sales increased by approximately 57.2% to approximately RMB3,254.7 million (US$497.0 million) for the three months ended March 31, 2011 from approximately RMB2,070.7 million for the three months ended March 31, 2010, primarily due to an increase in the sales volume of its aluminum products and an increase in the unit cost of its aluminum products. The increase of its unit cost of aluminum products was due to the increase of its average cost of raw materials and electricity. The average purchase price of alumina of the Group increased to RMB1,795 (US$274.1) per ton for the three months ended March 31, 2011 as compared to RMB1,621 per ton for the three months ended March 31, 2010. This was due to the price adjustment mechanism in the alumina purchase agreement with Gaoxin, which was triggered by an increase in the average selling price of alumina to other independent third parties by Gaoxin in the second half of 2010. The average electricity cost of the Group per ton of aluminum products sold increased by 4.8% to approximately RMB3,549 (US$542.0) for the three months ended March 31, 2011 from approximately RMB3,385 for the three months ended March 31, 2010 due to the increase in the proportion of electricity that the Group purchased from external suppliers, the cost of which is generally higher than that of the electricity generated by the thermal power station of the Group.

Gross profit and gross profit margin

As a result of the foregoing, the gross profit of the Group increased by approximately 16.2% to approximately RMB1,810.3 million (US$276.5 million) for the three months ended March 31, 2011 as compared to a gross profit of approximately RMB1,558.4 million for the three months ended March 31, 2010. The gross profit margin of the Group decreased to approximately 35.7% for the three months ended March 31, 2011 from approximately 42.9% for the three months ended March 31, 2010.

Other income and gain and loss

Other income and gain and loss increased by approximately 67.2% to approximately RMB70.3 million (US$10.7 million) for the three months ended March 31, 2011 from approximately RMB42.1 million for the three months ended March 31, 2010, primarily due to 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 the increased production output of aluminum products of the Group.

Distribution and selling expenses

The distribution and selling expenses of the Group decreased slightly by approximately 2.7% to approximately RMB6.1 million (US$0.9 million) for the three months ended March 31, 2011 from approximately RMB6.2 million for the three months ended March 31, 2010. The relatively stable distribution and selling expenses notwithstanding the significant growth in the revenue of the Group was primarily due to its growth in revenue being largely attributable to an increase in the sales volume of the molten aluminum alloy products of the Group, the transportation cost of which is much lower than that of the other aluminum products of the Group. In addition, a larger portion of the aluminum alloy ingot customers of the Group bore the relevant cost of delivery and the Group did not incur any substantial incremental distribution and selling expenses relating to such sales.

Administrative expenses

Administrative expenses increased by approximately 28.0% to approximately RMB36.8 million (US$5.6 million) for the three months ended March 31, 2011 from approximately RMB28.7 million for the three months ended March 31, 2010, mainly from increases in local taxes and salaries due to the increased production of the Group.

Finance costs

Finance costs increased by approximately 398.9% to approximately RMB67.0 million (US$10.2 million) for the three months ended March 31, 2011 from approximately RMB13.4 million for the three months ended March 31, 2010. Finance costs were higher for the three months ended March 31, 2011 primarily because the Group had a higher amount of outstanding bank borrowings for the three months ended March 31, 2011.

Other expenses

The Group incurred other expenses of approximately RMB15.8 million (US$2.4 million) for the three months ended March 31, 2011 for professional services in connection with its listing as compared for nil for the three months ended March 31, 2010.

Income tax

Income tax expense increased by approximately 13.9% to approximately RMB439.6 million (US$67.1 million) for the three months ended March 31, 2011 from approximately RMB386.0 million for the three months ended March 31, 2010 due mainly to its increased profit before taxation. The effective income tax rates applicable to the Group for the three months ended March 31, 2010 and 2011 were 24.9% and 25.0%, respectively.

Profit for the period from continuing operations

As a result of the significant increase in the Group's sales volume mainly driven by its increased production capacity and output, its profit for the period from continuing operations increased by approximately 12.8% to approximately RMB1,315.4 million (US$200.9 million) for the three months ended March 31, 2011 from approximately RMB1,166.1 million for the three months ended March 31, 2010.

Profit for the period from discontinued operations

The Group recorded nil for profit from discontinued operations for the three months ended March 31, 2011 because the Group completed the disposal of its discontinued operations, namely, the dyeing business, the caustic soda manufacturing business and the alumina agency business, by the first quarter of 2010.

Description of other material indebtedness and obligations

To fund the existing business operations and to finance the working capital requirements, the Group has borrowed money or incurred indebtedness from various banks. As of March 31, 2011, the total borrowings amounted to RMB4,733.1 million (US$722.8 million), of which RMB89.1 million (US$13.6 million) were secured borrowings.

The PRC subsidiaries of the Group have entered into bilateral loan agreements with a number of PRC banks, namely Agricultural Bank of China, Bank of Communications, China Construction Bank, Evergrowing Bank and Industrial and Commercial Bank of China. Other than one loan from Industrial and Commercial Bank of China which is a construction loan for the Binzhou manufacturing base of the Group, its loans are all working capital loans. The maturity of its loans ranges from one year to five years. The bilateral loan agreements contain customary covenants and events of default. Some of the bilateral loan agreements between Industrial and Commercial Bank of China and the Company's subsidiaries, Aluminum & Power and Shandong Hongqiao, prohibit the repayment of loans to their shareholders prior to the repayment of the principal amount of and accrued interest on the relevant bilateral loans. To the extent that the Company needs a payment from Aluminum & Power or Shandong Hongqiao in the form of a repayment of a shareholder loan (in order to enable the Group to meet its obligations under the Notes or otherwise), it may be required to prepay the relevant bilateral loans should it fails to obtain consents or waivers from Industrial and Commercial Bank of China at such time.

The Group has both fixed rate and floating rate borrowings. Fixed rate borrowings are charged at the prevailing market rates ranging from 5.58% to 5.73% per annum as of March 31, 2011. Interest on the borrowings of the Group at floating rates are calculated based on the borrowing rates announced by the People's Bank of China.

As of the date of this announcement, the Group does not have any offshore borrowing.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

"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 an indirect wholly-owned subsidiary of the Company.
"Antaike"	北京安泰科信息有限公司 (Beijing Antaike Information Development Co., Ltd.), an independent specialist market research company engaged by the Company
"Barclays Capital"	Barclays Bank PLC, one of the joint bookrunners and joint lead managers in respect of the Proposed Notes Issue
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China excluding except where the context otherwise requires, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region of China and Taiwan
"Company"	China Hongqiao Group Limited (中國宏橋集團有限公司), a company incorporated in the Cayman Islands with limited liability the shares of which are listed on the Main Board of the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch, one of the joint bookrunners and joint lead managers in respect of the tranche denominated and settled in US dollars and Deutsche Bank AG, Hong Kong Branch, one of the joint bookrunners and joint lead managers in respect of the tranche denominated and settled in Renminbi of the Proposed Notes Issue
"Gaoxin"	鄒平高新鋁電有限公司 (Binzhou Gaoxin Aluminum & Power Joint Stock Co., Ltd.), formerly known as 鄒平高新熱電有限公司 (Zouping Gaoxin Power Co., Ltd.), a joint stock company incorporated under the laws of the PRC on January 24, 2007, which is 98.0% owned by Shandong Zouping Yunda Investment Management Company Limited and 2.0% owned by Shandong Zouping Kaida Real Estate Company Limited. The shareholders of Shandong Zouping 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 Zouping Yunda Investment Management Company Limited.

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"J.P. Morgan"	J.P. Morgan Securities Ltd., one of the joint bookrunners and joint lead managers in respect of the tranche denominated and settled in US dollars and J.P. Morgan Securities (Asia Pacific) Limited, one of the joint bookrunners and joint lead managers in respect of the tranche denominated and settled in Renminbi of the Proposed Notes Issue
"Notes"	the tranche of senior notes denominated and settled in US dollars or the tranche of senior notes denominated and settled in Renminbi on substantially similar terms, or a combination of both, in each case to be issued by the Company
"Offer Price"	the final price at which the Notes will be sold
"Proposed Notes Issue"	an international offering of the Notes by the Company
"Purchase Agreement"	an agreement proposed to be entered into between, among others, the Company, J.P. Morgan, Barclays Capital and Deutsche Bank in relation to each tranche of the Proposed Notes Issue
"Securities Act"	the United States Securities Act of 1933, as amended
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SGX-ST"	Singapore Exchange Securities Trading Limited

By order of the Board
China Hongqiao Group Limited
Zhang Shiping
Chairman

Hong Kong, July 11, 2011

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

Extract of Operating and Financial Data and the Interim Financial Report for the three months ended 31 March 2011 of China Hongqiao Group Limited (as of July 10, 2011)

You should carefully consider the risks described below and all other information contained in this document 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 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.

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; and (iii) risks relating to doing business in the PRC.

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. The average prices of aluminum ingots labelled as A00 released by Yangtze River Non-ferrous Metals Spot Market were approximately RMB14,525 per ton, RMB11,941 per ton, RMB13,449 per ton and RMB14,221 (US$2,171.7) per ton for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, according to Antaike. Fluctuations in the market prices of aluminum products may affect our results of operations.

The prices of aluminum products have historically fluctuated 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 2008, 2009, 2010 and the three months ended March 31, 2011, the average selling price of our aluminum products per ton was approximately RMB14,379, RMB11,858, RMB13,575 and RMB14,290 (US$2,182.2), respectively. The decline in the average selling price in 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 2010 and the three months ended March 31, 2011 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. Even if there is an increase in the market price of our products, it may not be enough to compensate for the increase in the prices of raw materials, and as a result, our business, financial condition, results of operations and prospects may be materially and adversely affected. Furthermore, if prices of our raw materials increase while the market prices of our products decrease or do not increase correspondingly for any reason, our business, financial condition, results of operations and prospects will be materially and adversely affected.

Gaoxin is the supplier of substantially all of our alumina and electricity. If Gaoxin 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 36.4%, 30.7%, 36.4% and 37.5% of our total cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Until December 31, 2009, we purchased all of our alumina from Chuangye Group, which, as of March 31, 2011, was 33.72% owned by Mr. Zhang, our Controlling Shareholder. In December 2009, Chuangye Group sold its alumina assets to Gaoxin, in which the Labor Union Committee of Shandong Zouping Economic Development Zone holds substantially all of the beneficial interest. We entered into an alumina supply agreement with Gaoxin in December 2009, which was supplemented on December 27, 2009 and again on January 6, 2010 with a three year term. Gaoxin was our sole alumina supplier from January 2010 to March 2011. We recently entered into a supply contract with an independent alumina supplier based in Qingdao, pursuant to which we agreed to purchase 250,000 tons of alumina from April 2011 to December 2012. In 2010 and the three months ended March 31, 2011, the periods during which Gaoxin was our sole alumina supplier, we purchased 2,110,817 tons and 679,525 tons of alumina respectively. We will therefore continue to rely on continued procurement of alumina from Gaoxin.

In addition, we entered into an electricity supply agreement with Gaoxin 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 started to supply electricity to us in July 2008 and has been our sole electricity supplier since January 2010 (excluding the electricity that we generated ourselves). Gaoxin was our largest supplier during 2010 and the three months ended March 31, 2011, accounting for approximately 58.4% and 61.5%, respectively, of our total procurement (including both alumina and electricity) during such periods. Our PRC legal advisors, Zong Heng Law Firm, have advised us that the supply of alumina and electricity by Gaoxin to our Group complies with applicable PRC laws and regulations.

The future relationship between our Group and Gaoxin and the willingness and capability of Gaoxin to supply alumina and electricity to us will be critical to our business and operations. In June 2010, we 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 is likely to be materially higher than the price of the electricity supplied to us by Gaoxin. See "Business – Electricity Supply – Electricity suppliers."

If Gaoxin is unwilling or unable to provide us with high quality alumina and electricity in required quantities and at commercially acceptable prices, or if Gaoxin 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 does not fully comply with relevant PRC laws, rules or regulations, or if Gaoxin 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 or electricity to us, we may be unable to find alternative sources at the same price level offered by Gaoxin 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.

If there is any material adverse change in Gaoxin's business, financial condition and results of operations, our business, financial condition and results of operations could be materially and adversely affected.

During 2010 and the three months ended March 31, 2011, Gaoxin was our sole supplier of alumina and electricity, two principal cost components of our cost of sales, accounting for approximately 58.4% and 61.5%, respectively of our total procurement during those periods. In addition, pursuant to the alumina supply agreement between Gaoxin and us, Gaoxin agreed to provide us with price discounts with reference to the sales price of alumina supplied by Gaoxin to other independent third parties in early January of the relevant year, which will be determined through negotiation. Our average alumina purchase price was RMB1,621 per ton for 2010 and RMB1,795 (US$274.1) per ton for the three months ended March 31, 2011, which was lower than the average spot market price of alumina of RMB2,350 per ton and RMB2,385 (US$364.2) per ton in China for the same periods according to Antaike. This is also an important factor that contributed to the significant increase in our net profit for 2010.

The future relationship between our Group and Gaoxin and the willingness and capability of Gaoxin to supply alumina and electricity to us will be critical to our business and operations. If there is any material adverse change in Gaoxin's business, financial condition or 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.

In addition, according to the alumina supply agreement, we have maintained a deposit of RMB400.0 million with Gaoxin for its alumina supply to us. Moreover, we usually make full payment before we receive alumina and electricity from Gaoxin. We make prepayments in several instalments to Gaoxin every month and Gaoxin settles the purchase payment of electricity and alumina with us by issuing invoices to us at the end of every month based on our actual purchased amount. If there is any material adverse change in Gaoxin's business, financial condition or 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 could 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 in the past. In addition, we had certain operations during the three years ended December 31, 2010 and the three months ended March 31, 2011 that have been discontinued. See "Business – Discontinued Operations." Profit from our discontinued operations was approximately RMB145.3 million, RMB31.5 million and nil for 2008, 2010 and the three months ended as of March 31, 2011, respectively, while loss from our discontinued operations was RMB9.4 million for 2009.

Furthermore, Chuangye Group was our sole alumina supplier for 2008 and 2009. In May 2006, one of our subsidiaries, Aluminum & Power, entered into the Agency Agreement with Chuangye Group, pursuant to which we procured alumina from Chuangye Group at its production cost. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin. We entered into an alumina supply agreement with Gaoxin 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 to other independent third parties in early January of the relevant year. In addition, provided that (i) we pick up the alumina in bulk by ourselves, (ii) our purchase volume is more than one million tons each year and (iii) we maintain a deposit of RMB400 million, Gaoxin agreed to provide us with price discounts, to be determined through negotiation. Gaoxin was our sole alumina supplier from January 2010 to March 2011 and we will continue to rely primarily on Gaoxin for our supply of alumina in the future. As the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin 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.

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

Our existing aluminum manufacturing facilities and those under construction are located within or in close proximity to Zouping County or Binzhou Economic Development Zone, in China's Shandong Province. 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 were able to identify an alternative manufacturing site following the occurrence of such an event, we would likely incur significant additional costs and experience disruptions in the production of our products until the new facilities became 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 will be disrupted.

In addition, 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 significant time and extra electricity to recommence operations. Any disruption in our operations could have a material adverse impact on our ability to produce sufficient quantities of products or may require us to incur significant expenses in order to produce sufficient quantities to meet our contractual obligations, and could impair our ability to meet the demand of customers and result in customers cancelling their 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 end-user markets for aluminum products. We experienced significant growth in the sales volume of our aluminum products during the three years ended December 31, 2010 and the three months ended March 31, 2011. 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. 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 at commercially acceptable prices, our business, financial condition and results of operations will be materially and adversely affected.

Our business requires certain key raw materials, such as alumina, carbon anodes and fluorides. We cannot assure you that we will not experience any shortage in their supply in the future. If any shortage occurs, it could materially and adversely affect our production, business and results of operations. If any of our existing suppliers is unwilling or unable to provide us with high quality raw materials in required quantities and at commercially acceptable prices, we may be unable to find alternative sources 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.

In particular, because alumina is one of the principal components of our cost of goods sold, accounting for approximately 69.1%, 73.4%, 64.7% and 62.5% of our total purchase cost of raw materials for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, the price of alumina has a significant impact on our profitability. According to Antaike, the average price of alumina in China was approximately

RMB2,885 per ton, RMB2,000 per ton, RMB2,350 per ton and RMB2,385 (US$364.2) per ton for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. We cannot assure you that there will not be any sudden shortages in our supply of alumina, or any fluctuations in its price due to changes in market conditions. 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 principal alumina supplier, Gaoxin, to comply with any past, 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 principal alumina supplier, Gaoxin, 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. 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, is 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 generation of red mud created in the production process of alumina, there are certain regulations which govern its storage and disposal and that there are measures adopted to prevent pollution caused by red mud, including a 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 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 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 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, our principal 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 to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of Gaoxin'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.

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 66.1%, 58.0%, 73.7% and 74.0% of our revenue of continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Our largest customer accounted for approximately 24.1%, 20.0%, 40.8% and 35.8% of our revenue of continuing operations for the same periods. However, we have relatively short relationship histories with our top customers, ranging from one to five 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.

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 56.5%, 61.5%, 84.4% and 76.6% of our total revenue of aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, 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 was our sole service provider for the delivery of our molten aluminum alloy products during the three years ended December 31, 2010 and the three months ended March 31, 2011, 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 2008, 2009, 2010 and the three months ended March 31, 2011. 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.

If our electricity costs increase significantly or if we are unable to obtain sufficient electricity supply, our business, financial condition and results of operations will be materially and adversely affected.
Aluminum production requires a stable supply of electricity in large quantities. Our electricity cost was approximately RMB3,381.8 million, RMB3,870.9 million, RMB3,483.0 million and RMB1,214.3 million (US$185.4 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. We have been able to meet our electricity needs by purchasing electricity from Chuangye Group and Gaoxin 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 10.9%, 11.2%, 20.7% and 13.8% of our total cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. We purchase coal from a number of coal suppliers and have entered into long-term coal supply agreements with certain of such suppliers. As a result, any increase in the price of coal could increase the cost of electricity generated by our thermal power station. Additionally, we started to sell steam produced by our thermal power station to Gaoxin in January 2010. Our revenue from the sale of steam was approximately RMB677.7 million and RMB176.0 million (US$26.9 million) for 2010 and the three months ended March 31, 2011, or 4.5% and 3.5%, respectively, of our total revenue. We cannot assure you that Gaoxin will not decrease the amount of steam it purchases from us in the future or that we will continue to have sufficient supply to sell to Gaoxin. If any such decrease or shortage occurs, our revenue from steam will decline. These could materially and adversely affect our results of operations and business. The cost of generating electricity by Gaoxin could be increased, which in turn may result in an increase in the price of the electricity supplied to us by Gaoxin.

In addition, the price of electricity we purchase from Gaoxin 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. The electricity supply agreement between Gaoxin and us also does not have a definite term and can be terminated by a 90-day prior written notice provided by any party. If Gaoxin chooses to terminate this electricity supply agreement, we cannot guarantee you that we may be able to find alternative sources at the same price level offered by Gaoxin or at otherwise commercially acceptable prices or terms in a timely manner. 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 RMB1,908.2 million, RMB1,089.1 million, RMB2,949.5 million and RMB2,029.2 million (US$309.9 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, which were primarily used to increase our production capacity. For example, we are in the process of expanding the production capacity of our aluminum products. 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 may not be able to expand successfully.

Our growth prospects and future profitability depend on, among other matters, the ability to successfully increase our production capability and capacity, either generally or with respect to demand from customers. As such, 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, from January 1, 2009 through March 31, 2011, our aluminum production capacity increased from 687,891 tons to 1,376,000 tons and we are expanding the production capacity of our aluminum products and we are beginning to develop our production capacity for high-value-added aluminum foil products which is expected to reach 30,000 tons by the second half of 2012 and we may further enter into the downstream aluminum fabrication product market by using self-manufactured aluminum alloy products and may expand our production capacity for such expansion. We may not be able to sell these products at the price that we expect, or at all, or we may not be able to manufacture these products successfully, or we may fail to obtain the necessary approvals, permits or filings or develop our projects in a timely fashion or indeed at all. Our business, financial condition and results of operations could be materially and adversely affected as a result.

In particular, the PRC government has recently enacted prohibitions on the expansion of electrolytic aluminum manufacturing facilities and the construction of new electrolytic aluminum manufacturing facilities. See "Industry Overview – Competition Landscape" and "Regulation Overview." Although we have no plans to construct new or expand existing electrolytic production facilities beyond those that were approved prior to the relevant measures coming into effect, there can be no assurance that we will not be prevented from further expanding our electrolytic aluminum manufacturing facilities or constructing additional such facilities in the future.

Furthermore, we do not possess any previous experience or expertise in, and are not currently engaged in aluminum products manufacturing business related upstream business or 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, in relation to our existing production line or new products, 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, our business, financial condition and results of operations may be materially and adversely affected. In general, there is no assurance that we will be able to successfully maintain or expand our market coverage without delay or grow our business successfully.

We had net current liabilities as of December 31, 2008 and 2009.
We had net current liabilities of approximately RMB3,548.8 million and RMB2,654.0 million as of December 31, 2008 and 2009, respectively. As of December 31, 2010 and March 31, 2011, we had net current assets of approximately RMB2,838.2 million and RMB7,187.3 million (US$1,097.6 million).

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 2008 and 2009, 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 offering. If we fail to manage our finance costs effectively, our business, financial condition and results of operations will be materially and adversely affected.
During 2008 and 2009, we financed our operations in part through significant amounts due to related parties that were interest free. Our amounts due to related parties were approximately RMB3,471.9 million, RMB3,646.8 million (inclusive of liabilities associated with assets held for sale) as of December 31, 2008 and 2009, respectively. Our amounts due to related parties as of December 31, 2008 and 2009 were interest free. These amounts included certain bills not set to mature until a later date that we received from third parties and endorsed to our related parties which, in total, amounted to approximately RMB1,230.4 million and RMB599.9 million as of December 31, 2008 and 2009, respectively. If we had paid interest at the effective weighted average annual rate for our bank loans, which was 7.10% and 4.88% per annum for 2008 and 2009, respectively, on these amounts due to our related parties as of December 31, 2008 and 2009, our finance costs would have increased by approximately RMB150.1 million and RMB128.8 million during the same periods, respectively.

Our operations require significant amounts of capital and we will not be able to rely on amounts due to related parties in the future to finance our operations. Due to the austerity measures imposed by the PRC government, the average PBOC benchmark interest rate had increased five times from October 2010 to July 2011. Should we be unable to find sufficient sources of capital to finance our operations and on suitable terms, including at acceptable rates of interest, our business, financial condition and results of operations will 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 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 and 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.

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.

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

Mr. Zhang, our chairman and Controlling Shareholder, currently beneficially owns approximately 84.96% of the issued share capital of our Company. 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 investors.

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

Our success depends in part upon our intellectual property rights and know-how. However, we may not be able to adequately protect such intellectual property 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 upon 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.

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 March 31, 2011, 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. 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 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.

Our accounting and corporate disclosure standards may differ from those in other jurisdictions.
We prepare and present our consolidated financial statements in accordance with IFRS, which differ in certain significant respects from those applicable to companies in certain other countries including the United States. We have not identified the differences between IFRS and those accounting principles generally accepted in the United States or other jurisdictions, or quantified the effect of applying generally accepted accounting principles in the United States or other jurisdictions on our financial information.

Investors must make their own judgment in assessing financial information included in our consolidated financial statements, and should consult their own professional advisors if necessary to understand the difference between IFRS and generally accepted accounting principles in the United States or other jurisdictions, and how those differences would affect our financial information.

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 was approximately RMB14,379 per ton for 2008, RMB11,858 per ton for 2009, RMB13,575 per ton for 2010 and RMB14,290 (US$2,182.2) per ton for the three months ended March 31, 2011. Our gross profit margin of the continuing operations was approximately 6.1% for 2008, 10.4% for 2009, 37.9% for 2010 and 35.7% for the three months ended March 31, 2011.

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.

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. 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. 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.

As of March 31, 2011, we had an aggregate designed capacity of approximately 1,376,000 tons of aluminum products at our Zouping, Weiqiao and Binzhou manufacturing bases. In addition, we are in the process of increasing the production capacity of our manufacturing bases. As a result, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. 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 had at the time of our Listing 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 applicable laws and regulations change adversely or 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 paper, medium-term notes, convertible bonds or equity issuances under the current 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 in which we are currently engaged. 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 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, operations which involve preparing and handling high temperature materials, the production, handling and use of high voltage electricity and the transportation of hazardous products. We are subject to the risks associated with these activities, including spillage of high temperature materials, equipment failures, industrial accidents, fires 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.

We cannot assure you that the same will not happen at our manufacturing bases in the future. Any of these risks 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.

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

Certain facts and other statistics in this document 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 Initial Purchasers 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.

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. 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.

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 Listing 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. 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 may be adversely affected.

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 may be treated as a PRC tax resident enterprise and interest in respect of our securities (if any) and gain from the disposition of our securities may be subject to PRC tax.

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 FIEs. As a result, our effective tax rate of our continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011 was approximately 25.9%, 25.4%, 25.0% and 25.0%, respectively. Under the New EIT Law, a 10% withholding tax is generally imposed on dividends distributed by FIEs to their foreign investors. In addition, the New EIT Law deems an enterprise established offshore but with "de facto management bodies" in the PRC to be a "resident enterprise" which is subject to the PRC EIT on its global income excluding dividends received from its PRC subsidiaries. In 2009 the State Administration of Taxation issued guidance regarding the determination of the location of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. However, it is unclear whether this guidance also reflects the State

Administration of Taxation's criteria for determining the location of the "de facto management bodies" for foreign enterprises that are not controlled by PRC enterprises (such as our Company). We currently take the position that we are not a PRC resident enterprise for tax purposes. However, we cannot assure you that the tax authorities will agree with our position. 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 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 may be reduced to 5% if the Hong Kong enterprise is the beneficial owner of the income and the PRC authorities approve the reduced rate. Otherwise, the withholding tax rate is 10% for the relevant dividends. If we or the Subsidiary Guarantors are treated as a PRC resident enterprise, interest in respect of our securities (if any) might be subject to withholding tax and gains from the transfer of our securities might be subject to PRC tax. We will be required to pay Additional Amounts with respect to PRC withholding tax on interest payments, subject to certain exceptions.

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 US dollars we receive into Renminbi for our operations, appreciation of the Renminbi against the US dollar could have a material adverse effect on the value of the US dollars we will receive, 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 our ability to service the Notes.

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. 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.

CAPITALIZATION AND INDEBTEDNESS

The table below sets forth our consolidated current borrowings and capitalization as of March 31, 2011.

You should read this table in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this document.

	As of March 31, 2011	
	Actual	
	(RMB)	(US$)
	(in thousands) (unaudited)	
Total bank borrowings – due within one year	847,120	129,365
Total bank borrowings – due after one year	3,886,000	593,436
Equity		
Capital and reserves		
Share capital	386,206	58,978
Reserves	13,450,790	2,054,089
Equity attributable to owners of the Company	13,836,996	2,113,067
Total equity	13,836,996	2,113,067
Total capitalization[(1)]	17,722,996	2,706,503

(1) Total capitalization equals total bank borrowings due after one year plus total equity.

As of March 31, 2011, our total cash and cash equivalents (excluding restricted cash) amounted to RMB7,793.3 million (US$1,190.1 million).

As of March 31, 2011,

- we had approximately RMB4,733.1 million (US$722.8 million) of consolidated indebtedness outstanding, of which approximately RMB89.1 million (US$13.6 million) was secured;
- the Company, Hongqiao Investment and Hongqiao Hong Kong had no outstanding secured indebtedness; and
- the Company's PRC subsidiaries had indebtedness of approximately RMB4,661.0 million (US$711.8 million). In addition, these PRC subsidiaries had capital commitments of approximately RMB8,679.6 million (US$1,325.5 million) and nil of contingent liabilities arising from guarantees. The PRC Subsidiaries had contingent liabilities relating to certain litigation. See "Business – Legal Proceedings."

Except as otherwise disclosed in this document, there has been no material adverse change in our indebtedness or capitalization since March 31, 2011.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated financial information of our Group. We have derived the following selected consolidated financial information from our audited consolidated financial statements for the years ended and as of December 31, 2008, 2009 and 2010 and our condensed unaudited consolidated financial statements for the three months ended and as of March 31, 2011 set forth elsewhere in this document. These have been prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions. You should read the summary financial information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements. Historical results are not necessarily indicative of results that may be achieved in the future.

Consolidated Statements of Comprehensive Income

	Year ended December 31,				Three months ended March 31,		
	2008	2009	2010	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$) (in thousands)	(RMB)	(RMB) (unaudited)	(US$)
Revenue	8,772,162	8,668,428	15,131,591	2,310,766	3,629,120	5,065,037	773,489
Cost of sales	(8,238,706)	(7,769,098)	(9,389,722)	(1,433,918)	(2,070,721)	(3,254,731)	(497,035)
Gross profit	533,456	899,330	5,741,869	876,848	1,558,399	1,810,306	276,454
Other income and gain and loss	178,649	97,216	210,535	32,151	42,069	70,333	10,741
Distribution and selling expenses	(52,849)	(40,961)	(19,977)	(3,051)	(6,230)	(6,064)	(926)
Administrative expenses	(83,734)	(92,335)	(112,038)	(17,109)	(28,719)	(36,760)	(5,614)
Finance costs	(193,018)	(89,243)	(192,990)	(29,472)	(13,428)	(66,998)	(10,231)
Other expenses	–	–	(42,815)	(6,538)	–	(15,842)	(2,419)
Profit before taxation	382,504	774,007	5,584,584	852,829	1,552,091	1,754,975	268,005
Income tax expense	(98,921)	(196,924)	(1,395,868)	(213,165)	(385,980)	(439,603)	(67,133)
Profit for the year/period from continuing operations	283,583	577,083	4,188,716	639,664	1,166,111	1,315,372	200,872
Profit (loss) for the year/period from discontinued operations[(1)]	145,291	(9,441)	31,515	4,813	31,515	–	–
Profit for the year/period	428,874	567,642	4,220,231	644,477	1,197,626	1,315,372	200,872
Profit and total comprehensive income attributable to							
Owners of the Company	420,297	556,289	4,195,738	640,737	1,173,133	1,315,372	200,872
Non-controlling interests	8,577	11,353	24,493	3,740	24,493	–	–
	428,874	567,642	4,220,231	644,477	1,197,626	1,315,372	200,872

	Year ended December 31,				Three months ended March 31,		
	2008	2009	2010	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
				(in thousands)			
						(unaudited)	
Earnings per share, in RMB,							
From continuing and discontinued operations							
Basic	0.08	0.11	0.84	0.128	0.23	0.26	0.04
From continuing operations							
Basic	0.06	0.11	0.83	0.127	0.23	0.26	0.04
From discontinued operations							
Basic	0.02	–	0.01	0.001	–	–	–
Other financial data (unaudited):							
EBITDA(2)	901,952	1,258,873	6,370,016	972,775	1,702,200	1,994,484	304,581
EBITDA margin(3)	10.3%	14.5%	42.1%	42.1%	46.9%	39.4%	39.4%

(1) 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.

(2) EBITDA refers to our profit from continuing operations before interest income/expense, amortization of intangible assets, income tax expense and depreciation. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under IFRS to our definition of EBITDA.

(3) EBITDA margin is calculated by dividing EBITDA by revenue.

Statements of Financial Position

	The Group				The Group	
	At December 31,				At March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
NON-CURRENT ASSETS						
Property, plant and equipment	6,122,810	5,591,784	8,111,661	1,238,743	9,968,455	1,522,297
Prepaid lease payments – non-current portion.........................	10,798	–	153,129	23,385	308,121	47,053
Intangible assets...........................	123,628	–	–	–	–	–
Deferred tax assets.......................	30,078	12,124	40,231	6,144	42,542	6,497
Deposits paid for acquisition of property, plant and equipment .	532,096	312,889	120,314	18,373	216,597	33,077
	6,819,410	5,916,797	8,425,335	1,286,645	10,535,715	1,608,924
CURRENT ASSETS						
Inventories	743,988	548,360	1,122,100	171,357	1,359,240	207,571
Trade receivables	34,555	44,416	3,716	567	3,819	583
Bills receivable	1,645,045	763,370	882,570	134,779	877,201	133,958
Prepayments and other receivables...............................	122,826	15,377	156,741	23,936	106,106	16,204
Amounts due from related parties......................................	160,067	153,756	–	–	–	–
Prepaid lease payments – current portion.....................................	229	–	3,015	460	6,514	995
Tax recoverable............................	74,726	97,790	–	–	–	–
Restricted bank deposits	195,615	760,646	82,650	12,622	76,221	11,640
Bank balances and cash	117,949	443,133	2,669,569	407,674	7,793,263	1,190,120
	3,095,000	2,826,848	4,920,361	751,395	10,222,364	1,561,071
Financial assets contracted for Alumina Production Business..	1,237,382	1,029,762	–	–	–	–
Assets classified as held for sale .	–	1,613,854	–	–	–	–
	4,332,382	5,470,464	4,920,361	751,395	10,222,364	1,561,071

	The Group				The Group	
	At December 31,				At March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
CURRENT LIABILITIES						
Trade payables	992,734	394,346	1,045,906	159,722	1,205,698	184,124
Bills payable	100,000	310,000	–	–	–	–
Other payables	957,713	848,059	805,425	122,998	765,789	116,945
Amounts due to related parties	3,471,942	3,556,479	–	–	–	–
Income tax payable	–	–	157,974	24,124	216,476	33,058
Bank borrowings – due within one year	869,970	929,173	72,850	11,125	847,120	129,365
	6,392,359	6,038,057	2,082,155	317,969	3,035,083	463,492
Financial liabilities contracted for Alumina Production Business	1,488,847	1,105,843	–	–	–	–
Liabilities associated with assets classified as held for sale	–	980,551	–	–	–	–
	7,881,206	8,124,451	2,082,155	317,969	3,035,083	463,492
NET CURRENT (LIABILITIES) ASSETS	(3,548,824)	(2,653,987)	2,838,206	433,426	7,187,281	1,097,579
TOTAL ASSETS LESS CURRENT LIABILITIES	3,270,586	3,262,810	11,263,541	1,720,071	17,722,996	2,706,503
CAPITAL AND RESERVES						
Paid-in capital/share capital	114,398	114,398	69	11	386,206	58,978
Reserves	2,413,854	2,970,143	7,302,472	1,115,170	13,450,790	2,054,089
Equity attributable to owners of the Company	2,528,252	3,084,541	7,302,541	1,115,181	13,836,996	2,113,067
Non-controlling interests	51,597	62,950	–	–	–	–
TOTAL EQUITY	2,579,849	3,147,491	7,302,541	1,115,181	13,836,996	2,113,067
NON-CURRENT LIABILITIES						
Deferred income	11,200	–	–	–	–	–
Bank borrowings – due after one year	679,537	115,319	3,961,000	604,890	3,886,000	593,436
	690,737	115,319	3,961,000	604,890	3,886,000	593,436
	3,270,586	3,262,810	11,263,541	1,720,071	17,722,996	2,706,503

Consolidated Statement of Cash Flows

	Year ended December 31,				Three months ended March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
	(in thousands)					
					(unaudited)	
Net cash generated from operating activities	1,116,715	1,923,575	4,772,464	728,810	1,540,195	235,205
Net cash used in investing activities	(1,798,773)	(1,472,690)	(1,814,002)	(277,019)	(2,277,650)	(347,823)
Net cash from (used in) financing activities	671,672	(39,889)	(817,838)	(124,893)	5,861,149	895,064
Net (decrease)/increase in cash and cash equivalents	(10,386)	410,996	2,140,624	326,898	5,123,694	782,446

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial position and results of operations should be read in conjunction with our audited consolidated financial statements as of and for the three years ended December 31, 2008, 2009 and 2010 and unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2010 and 2011 including the notes thereto, included elsewhere in this document. 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 document 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 document.

Overview

We are the fourth-largest aluminum product manufacturer in China, which is the largest and fastest growing major aluminum market in the world in terms of designed annual aluminum production capacity as of March 31, 2011, according to Antaike. China has been the largest aluminum consumer globally since 2005 and consumed in 2010 approximately 41.4% of world total consumption, according to Antaike.

We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes Gaoxin, our primary raw material supplier, and a majority of our down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. Shandong Province is 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. Due to their close proximity to us, our molten aluminum alloy customers avoid transportation costs associated with smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs.

We have three manufacturing bases, our Zouping, Weiqiao and Binzhou manufacturing bases. As of March 31, 2011, these manufacturing bases had an aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products. We are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. As our three manufacturing bases are in close geographic proximity to each other (within 80 km of each other) and are connected by our private power supply grid, we enjoy cost advantages and high operational efficiency through centralized power supply management and centralized procurement of raw materials and electricity. Our designed production capacity of aluminum products on a weighted average annualized basis was approximately 601,085 tons, 738,973 tons, 970,496 tons and 1,231,664 tons for the three years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, with utilization rates of approximately 102.6%, 98.3%, 110.9% and 111.7%, respectively, during the same periods.

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 primary aluminum. Our aluminum products are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction.

We have achieved significant growth in our sales volume of aluminum products since our inception and over the past three years. We sold approximately 610,057 tons, 731,043 tons, 1,064,775 tons and 342,116 tons of aluminum products for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and we generated revenue of approximately RMB8,772.2 million, RMB8,668.4 million, RMB14,453.9 million and RMB4,889.0 million (US$746.6 million) for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. 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.

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

	Year ended December 31,											
	2008				2009				2010			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	903,099	12,204.1	13,514	80.7%
Aluminum alloy ingot	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	157,240	2,183.0	13,883	14.4%
Aluminum busbar	–	–	–	–	7,159	90.2	12,609	1.0%	4,436	66.8	15,058	0.4%
Subtotal	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	1,064,775	14,453.9	13,575	95.5%
Steam	–	–	–	–	–	–	–	–	5,105,024	677.7	133	4.5%
Total		8,772.2		100.0%		8,668.4		100.0%		15,131.6		100.0%

	Three months ended March 31,							
	2010				2011			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy	164,876	2,312.2	14,024	63.7%	261,455	3,742.8	14,315	73.9%
Aluminum alloy ingot	74,111	1,060.6	14,311	29.2%	80,661	1,146.2	14,210	22.6%
Aluminum busbar	4,436	66.8	15,058	1.9%	–	–	–	–
Subtotal	243,423	3,439.6	14,130	94.8%	342,116	4,889.0	14,290	96.5%
Steam	1,427,718	189.5	133	5.2%	1,326,290	176.0	133	3.5%
Total		3,629.1		100.0%		5,065.0		100.0%

Molten aluminum alloy is our major product, the sales of which accounted for approximately 56.5%, 61.5%, 84.4% and 76.6% of our revenue derived from aluminum products for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. Compared with the production of aluminum alloy ingots, the production of molten aluminum alloy allows us to avoid incurring significant molding and other relevant costs. By purchasing molten aluminum alloy, our customers avoid transportation costs and the cost of smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs. We are able to provide our customers with molten aluminum alloy due to our close proximity to them, which, we believe, provides us with significant cost and operational advantages and results in other synergies.

We benefit from arrangements in relation to the key inputs into our aluminum products. Chiefly, these include (i) cost advantages from the production of a significant amount of the electricity that we use for the production of our aluminum products at our thermal power station, (ii) our self-owned power grid, (iii) cost advantages from purchasing off-grid electricity from Gaoxin, and (iv) pricing discounts resulting from our bulk purchases of alumina from our principal supplier of alumina, Gaoxin. In the three months ended March 31, 2011, we produced 44.8% of the electricity we used in our production of aluminum products at our thermal power station. We produced this electricity at a cost below the purchase price of electricity that we purchase externally. The remainder of our electricity requirements were purchased from Gaoxin pursuant to a direct power supply agreement and delivered via our self-owned power grid. The purchases of electricity of the Group from Gaoxin accounted for approximately 66.5% and 83.8% of their total electricity output for 2010 and the three months ended March 31, 2011, respectively. Due to the off-grid structure and bulk purchases of the Group, it has been able to purchase its electricity from Gaoxin at a cost below average on-grid electricity prices. Moreover, we purchased approximately 47.8% and 65.6% of the total volume of alumina sold by Gaoxin for 2010 and the first three months ended March 31, 2011, respectively. Due to the significant volume of alumina that we purchase from Gaoxin and Gaoxin's close proximity to our operations, we believe that we have been able to negotiate price discounts with respect to such alumina purchases. Gaoxin is an independent third party, in which the Labor Union Committee of Shandong Zouping Economic Development Zone holds substantially all of the beneficial interest. It has significant operations, including an aggregate installed capacity of 1,880 MW of electricity, an aggregate designed annual production capacity of 4,000,000 tons of alumina, over 8,300 employees and net assets as of March 31, 2011 of approximately RMB6.3 billion (US$962.1 million).

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 customers include downstream aluminum fabrication product manufacturers, who process our aluminum alloy products into aluminum fabrication products, and traders, who in turn resell our aluminum products to downstream aluminum fabrication product manufacturers or other traders. As of March 31, 2011, all of our molten aluminum alloy customers were located within 30 kilometers from us. 73.9% of our revenue for the three months ended March 31, 2011 was derived from the sales of molten aluminum alloy.

Basis of Presentation

Our Company was incorporated in the Cayman Islands on February 9, 2010. In March 2010, we underwent the Reorganization in anticipation of our IPO (which was in March 2011), pursuant to which our Company became the holding company of the companies now comprising our Group. The Group comprising the Company and its subsidiaries resulting from the Reorganization has been 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 the companies in our Group throughout the three years ended December 31, 2010. Our consolidated statements of financial position as of December 31, 2008, 2009 and 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. The financial information for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and September 30, 2010 appearing elsewhere in this document was prepared in connection with our IPO.

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 the prices of aluminum products;
- the expansion of our production capacity in recent years;
- the 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 the 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 2008 and 2009, the average selling price of our aluminum products per ton was approximately RMB14,379 and RMB11,858, respectively. The relatively low 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. The average selling price of our aluminum products increased to RMB13,575 per ton for 2010 and RMB14,290 (US$2,182.2) per ton for the three months ended March 31, 2011 from RMB11,858 per ton for 2009 and RMB14,130 per ton for the three months ended March 31, 2010, respectively, which increases were primarily driven by the recovery of the PRC economy. Although the PRC economy has gradually recovered, any future slowdown of the PRC economy could result in reduced demand for aluminum and in turn reductions in the demand for and the 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 significantly to approximately 37.9% for 2010 from approximately 10.4% for 2009. Such significant increases in our gross profit margin for 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 2010. Our gross profit margin of continuing operations decreased to approximately 35.7% for the three months ended March 31, 2011 from approximately 42.9% for the three months ended March 31, 2010. Such decrease in our gross profit margin and for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 was primarily due to an increase in the prices of raw materials, such as alumina and carbon anodes, and an increase in the proportion of the electricity we purchased from external suppliers for the three months ended March 31, 2011, the cost of which is generally higher than that of the electricity generated by our own thermal power station. In particular, as we derive a majority of our revenue from sales of molten aluminum alloy products, demand for and the purchase 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:

	For the year ended December 31,			Three months ended March 31,	
	2008	2009	2010	2010	2011
Sales volume (tons)	610,057	731,043	1,064,775	243,423	342,116
Average selling price (RMB per ton)	14,379	11,858	13,575	14,130	14,290
Revenue (RMB in millions)	8,772.2	8,668.4	14,453.9	3,439.6	4,889.0

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 aluminum production capacity for the three years ended December 31, 2008, 2009 and 2010 and the three months ended March 11, 2011 and our production volume for the same periods:

	Year ended December 31,			Three months ended March 31,
	2008	2009	2010	2011
Weighted average designed annual production capacity (tons)(1)	601,085	738,973	970,496	1,231,664
Production volume (tons)	616,972	726,192	1,076,196	343,938
Utilization rate(2)	102.6%	98.3%	110.9%	111.7%(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 for each of the three years ended December 31, 2010 and by three for the three months ended March 31, 2011.

(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 three years ended December 31, 2010 and the three months ended March 31, 2011 have strengthened our market position and enhanced our competitiveness in the market. As of March 31, 2011, we had an aggregate designed annual production capacity of 1,376,000 tons of aluminum products and ranked fourth among Chinese aluminum producers in terms of designed production capacity, according to Antaike. We are also in the process of expanding our manufacturing bases to increase our production capacity which is expected to be completed by the end of 2011 or early 2012. Upon the completion of these projects, our aggregate designed annual production capacity will increase by 400,000 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 52.7%, 41.8%, 56.3% and 59.9% of our total cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, 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 and it is one of the principal components of our cost of goods sold, accounting for approximately 69.1%, 73.4%, 64.7% and 62.5% of our total purchase of raw materials for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. In 2008 and 2009, we purchased all of our the alumina from Chuangye Group for a total of approximately RMB2,996.0 million and RMB2,382.3 million, respectively, accounting for approximately 36.4% and 30.7% of the cost of sales of our aluminum products for those years, respectively. In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin. We entered into a three-year alumina supply agreement with Gaoxin, which provides that the base price of alumina for each year is determined with reference to the sales price of alumina supplied by Gaoxin to other independent third parties in early January of that year. In addition, as long as we meet certain conditions, Gaoxin agreed to offer us price discounts which will be determined through negotiations. Gaoxin was our sole alumina supplier from January 2010 to March 2011. For 2010 and the three months ended March 31, 2011, our purchase of alumina amounted to approximately RMB3,421.0 million and RMB1,219.8 million (US$186.3 million), accounting for approximately 36.4% and 37.5% of our cost of sales for the same periods. 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.

For 2008 and 2009, Chuangye Group sold alumina to us at production cost. For 2010 and the three months ended March 31, 2011, Gaoxin sold alumina to us at a discount from the sales price of alumina it sold to other independent third parties. As the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin 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 "– Quantitative and Qualitative Disclosure about Market Risk – Aluminum products selling price risk" for more details. Gaoxin was our sole alumina supplier from January 2010 to March 2011. We recently entered into a supply contract with an independent alumina supplier based in Qingdao, pursuant to which we agreed to purchase 250,000 tons of alumina from April 2011 to December 2012, at a price per ton determined based on the average selling price of alumina from the previous month net of a discount.

The following table sets forth our average purchase price of alumina from Chuangye Group for 2008 and 2009 and from Gaoxin for 2010 and the three months ended March 31, 2011, and the average spot market price of alumina in China, according to Antaike, for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(RMB)	(US$)
Chuangye Group	2,495	1,712	–	–	–
Gaoxin	–	–	1,621	1,795	274.1
Average spot market price of alumina in China	2,885	2,000	2,350	2,385	364.2

Our purchase price of alumina provided by Chuangye Group decreased from RMB2,495 per ton for 2008 to RMB1,712 per ton for 2009, which was primarily due to the price fluctuations of bauxite, which decreased from 2008 to 2009, according to Antaike. According to Antaike, the average spot price of alumina in China increased to RMB2,350 per ton for 2010 and RMB2,385 (US$364.2) per ton for the three months ended March 11, 2011 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 RMB1,621 per ton for 2010 from RMB1,712 per ton for 2009. Our Directors believe that such decrease in our average purchase price of alumina for 2010 was primarily due to our large purchase volume of alumina as well as our ability to negotiate discounts with Gaoxin pursuant to the alumina supply agreement with Gaoxin. In addition, our Directors believe that the volume of alumina that we purchased from Gaoxin for 2010 helped Gaoxin improve the utilization rate of its alumina production facilities. However, our average purchase price of alumina increased to RMB1,795 (US$274.1) per ton for the three months ended March 31, 2011 from RMB1,621 per ton for 2010 due to a price adjustment mechanism in our alumina purchase agreement with Gaoxin, triggered by an increase in the average selling price of alumina to other independent third parties from Gaoxin in the second half of 2010. Since the average selling price of alumina to other independent third parties by Gaoxin in the first three months of 2011 was relatively stable, our Directors do not expect any further adjustment to the purchase price of alumina from Gaoxin in the second quarter of 2011. Due to our arrangements with Chuangye Group and Gaoxin described above, our average purchase prices of alumina from Chuangye Group and Gaoxin were lower than the average spot market prices of alumina in China during the three years ended December 31, 2010 and the three months ended March 31, 2011.

Electricity and coal prices

Electricity is also one of the principal cost components in manufacturing our aluminum products. Our aluminum production process requires a stable supply of electricity in large quantities. Our electricity cost, including the cost of coal used to generate electricity, was approximately RMB3,381.8 million, RMB3,870.9 million, RMB3,483.0 million and RMB1,214.3 million (US$185.4 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, accounting for approximately 41.0%, 49.8%, 37.1% and 37.3% of our cost of sales during the same periods. Therefore, the price of electricity directly affects our cost of electricity and, consequently, our profit margins and results of operations.

During the three years ended December 31, 2010 and the three months ended March 31, 2011, the majority of electricity we consumed was purchased from Chuangye Group and Gaoxin. See "Business – Electricity Supply." We expect to continue to purchase a substantial amount of electricity.

The following table sets forth our average electricity purchase price and the cost of electricity generated in-house for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2008	**2009**	**2010**	**2011**	**2011**
	(RMB/kWh)	**(RMB/kWh)**	**(RMB/kWh)**	**(RMB/kWh)**	**(US$/kWh)**
Average electricity purchase price....	0.403[(1)]	0.442[(1)]	0.291[(2)]	0.291[(2)]	0.044
Cost of electricity generated in-house	0.366	0.293	0.201	0.215	0.033

(1) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power grid by Gaoxin.

(2) Our average purchase price of electricity for 2010 and the three months ended March 31, 2011 was lower than that of 2008 and 2009, which was primarily due to the fact that the construction cost for the power grid connecting our facilities to Gaoxin's generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin for 2010 and the three months ended March 31, 2011 was lower than the price of electricity purchased by us from Chuangye Group for 2008 and 2009.

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 March 31, 2011, our thermal power station had an aggregate capacity of 1,080 MW. Of our total electricity consumption volume for 2010 and the three months ended March 31, 2011, approximately 55.1% and 44.8% 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 RMB1,085.4 million, RMB917.4 million, RMB1,591.3 million and RMB455.8 million (US$69.6 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. In addition, we started to sell steam produced by our thermal power station to Gaoxin on January 1, 2010. The revenue from the sale of steam was approximately RMB677.7 million and RMB176.0 million (US$26.9 million) for 2010 and the three months ended March 31, 2011, accounting for approximately 4.5% and 3.5% of our revenue of continuing operations during the same periods.

Coal prices directly affect our electricity generation cost. Coal prices 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 could materially and adversely affect our profit margins and results of operations. We purchased coal in an aggregate amount of approximately RMB899.0 million, RMB869.1 million, RMB1,943.8 million and RMB448.8 million (US$68.5 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. The average coal consumption cost per ton for 2008, 2009, 2010 and the three months ended March 31, 2011 were approximately RMB661, RMB500, RMB587 and RMB627 (US$95.8), respectively. Our coal is purchased through competitive bidding between a number of coal suppliers, primarily located near Shandong Province, 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 we purchased in 2009. See "– Quantitative and Qualitative Disclosure about Market Risk – Commodity and electricity purchase price risk" for more details.

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 during the second half of 2008, which gradually rebounded since the beginning of 2009. Our gross margin increased from 2008 to 2009. Although the PRC economy gradually recovered in 2010 and the three months ended March 31, 2011 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 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."

Critical Accounting Policies and Estimates

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.

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, directs 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.

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 2008 and 2009, 95.5% of our revenue for 2010 and 96.5% for the three months ended March 31, 2011. The following table sets forth the sales volume, revenue, average selling price and percentage of our total revenue derived from each of our molten aluminum alloy, aluminum alloy ingot, aluminum busbars products and steam for the periods indicated:

	Year ended December 31,											
	2008				2009				2010			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	903,099	12,204.1	13,514	80.7%
Aluminum alloy ingot	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	157,240	2,183.0	13,883	14.4%
Aluminum busbar	–	–	–	–	7,159	90.2	12,609	1.0%	4,436	66.8	15,058	0.4%
Subtotal	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	1,064,775	14,453.9	13,575	95.5%
Steam	–	–	–	–	–	–	–	–	5,105,024	677.7	133	4.5%
Total		8,772.2		100.0%		8,668.4		100.0%		15,131.6		100.0%

	Three months ended March 31,							
	2010				2011			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy	164,876	2,312.2	14,024	63.7%	261,455	3,742.8	14,315	73.9%
Aluminum alloy ingot	74,111	1,060.6	14,311	29.2%	80,661	1,146.2	14,210	22.6%
Aluminum busbar	4,436	66.8	15,058	1.9%	–	–	–	–
Subtotal	243,423	3,439.6	14,130	94.8%	342,116	4,889.0	14,290	96.5%
Steam	1,427,718	189.5	133	5.2%	1,326,290	176.0	133	3.5%
Total		3,629.1		100.0%		5,065.0		100.0%

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 for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2008		2009		2010		2010		2011	
	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
Electricity	3,381,817	41.0%	3,870,932	49.8%	3,482,995	37.1%	823,968	39.8%	1,214,273	37.3%
Purchase of alumina	2,995,979	36.4%	2,382,343	30.7%	3,421,009	36.4%	775,335	37.4%	1,219,755	37.5%
Purchase of other raw materials	1,342,867	16.3%	861,840	11.1%	1,865,559	19.9%	388,956	18.8%	730,364	22.4%
Depreciation	270,250	3.3%	313,159	4.0%	446,669	4.8%	104,898	5.1%	129,591	4.0%
Labor	147,598	1.8%	135,057	1.7%	257,542	2.7%	45,137	2.2%	85,867	2.6%
Repairs and packaging	39,534	0.5%	27,368	0.4%	57,705	0.6%	16,078	0.8%	15,387	0.5%
Change in inventories	15,844	0.2%	195,628	2.5%	(573,739)	(6.1%)	(241,469)	(11.7%)	(237,140)	(7.3%)
Others(1)	44,817	0.5%	(17,229)	(0.2%)	431,982	4.6%	157,818	7.6%	96,635	3.0%
Total	8,238,706	100.0%	7,769,098	100%	9,389,722	100.0%	2,070,721	100.0%	3,254,732	100.0%

(1) Represents the adjustments made for our inventories, raw materials used for resale and steam.

We use various raw materials in our aluminum production process, including, primarily, alumina, but also carbon anodes, fluorides and various other metals and materials. Purchase of raw materials accounted for approximately 52.7%, 41.8%, 56.3% and 59.9% of cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Our purchase of raw materials as a percentage of cost of sales declined from 2008 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 2010 and the three months ended March 31, 2011 as compared to 2009 and three months ended March 2010, respectively, which was primarily due to an increase in the market prices of alumina and carbon anodes.

Electricity cost is another major component of our cost of sales, accounting for approximately 41.0%, 49.8%, 37.1% and 37.3% of our cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Electricity cost comprises the cost of electricity we purchased from external suppliers and the cost of electricity generated by our own thermal power station, which includes the cost of coal acquired for such purpose.

Depreciation of property, plant and equipment accounted for approximately 3.3%, 4.0%, 4.8% and 4.0% of our cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, 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 period.

The following table sets forth our average alumina and average electricity costs incurred in the periods indicated by a ton of aluminum products that we sold during those periods:

	Year ended December 31,			Three months ended March 31,		
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US$)
Alumina[(1)]	4,911	3,259	3,213	3,185	3,565	544.4
Electricity[(2)]	5,543	5,295	3,271	3,385	3,549	542.0

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 increased for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010 primarily due to an increase in our average alumina purchase price, which was triggered by an increase in the average selling price of alumina to other independent third parties by Gaoxin in the second half of 2010 pursuant to the price adjustment mechanism in our alumina purchase agreement with Gaoxin.

Our purchase cost of alumina for a ton of aluminium products sold decreased in 2010 as compared with 2009 primarily as a result of higher raw material prices in 2009. Our raw material prices were higher in 2009 due to the use of certain bauxite which was purchased in 2008 at a relatively high price. Bauxite is the major raw material for the production of alumina. Our purchase cost of alumina for a ton of aluminum products sold dropped significantly from 2008 to 2009 due to a decrease in the purchase price of alumina as a result of a decline in the price of bauxite driven by the global economic downturn.

Our unit cost of electricity for a ton of aluminum products sold increased for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010 primarily due to an increase in the proportion of electricity we purchased from external suppliers. We purchased a higher proportion of electricity from external suppliers due to an increase in our total production. It generally costs more to purchase electricity from external suppliers than to generate electricity with our power station.

Our unit cost of electricity for a ton of our aluminium products sold decreased in 2010 as compared with 2009 primarily as a result of (i) a decrease in the price of electricity purchased from Gaoxin as the purchase price for 2009 also included the amortized construction cost for the power grid connecting our facilities to Gaoxin'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 the electricity we used being generated by our thermal power station (as opposed to being purchased from an external supplier), the unit cost of which was significantly lower than the unit cost of electricity purchased from Gaoxin. The unit cost of electricity for a ton of our aluminum products sold remained relatively stable from 2008 to 2009.

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 three months ended March 31,		
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US$)
Unit cost of sales of our aluminum products (per ton)	13,505	10,627	8,393	7,999	9,143	1,396.2

Our unit cost of sales of aluminum products increased to RMB9,143 (US$1,396.2) per ton for the three months ended March 31, 2011 from RMB7,999 per ton for the three months ended March 31, 2010, primarily due to an increase in the average purchase price of our raw materials and an increase in the proportion of the electricity we purchased from external suppliers, the cost of which is generally higher than that of the electricity generated by our own thermal power station. Our unit cost of sales of aluminium products decreased to RMB8,393 per ton for 2010 from RMB10,627 per ton for 2009 primarily due to a decrease in the price of the electricity we purchased from Gaoxin in 2010 primarily because the average electricity price for 2009 include the amortization of construction costs of the power grid. 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.

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 2008, 2009, 2010 and the three months ended March 31, 2011 was approximately 25.9%, 25.4%, 25.0% and 25.0%, respectively.

We were not subject to Cayman Islands profits tax as we had no assessable income arising in or derived from the Cayman Islands during the three years ended December 31, 2010 and the three months ended March 31, 2011. We were not subject to Hong Kong profits tax as we had no assessable income arising in or derived from Hong Kong during the three years ended December 31, 2010 and the three months ended March 31, 2011.

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. Our dyeing business ceased production in January 2008 while our caustic soda manufacturing business was operational only in 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 RMB145.3 million, RMB31.5 million and nil for 2008, 2010 and the three months ended as of March 31, 2011, respectively, while loss from our discontinued operations was RMB9.4 million for 2009.

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,				Three months ended March 31,		
	2008	2009	2010	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$) (in thousands)	(RMB)	(RMB) (unaudited)	(US$)
Revenue	8,772,162	8,668,428	15,131,591	2,310,766	3,629,120	5,065,037	773,489
Cost of sales	(8,238,706)	(7,769,098)	(9,389,722)	(1,433,918)	(2,070,721)	(3,254,731)	(497,035)
Gross profit	533,456	899,330	5,741,869	876,848	1,558,399	1,810,306	276,454
Other income and gain and loss	178,649	97,216	210,535	32,151	42,069	70,333	10,741
Distribution and selling expenses	(52,849)	(40,961)	(19,977)	(3,051)	(6,230)	(6,064)	(926)
Administrative expenses	(83,734)	(92,335)	(112,038)	(17,109)	(28,719)	(36,760)	(5,614)
Finance costs	(193,018)	(89,243)	(192,990)	(29,472)	(13,428)	(66,998)	(10,231)
Other expenses	–	–	(42,815)	(6,538)	–	(15,842)	(2,419)
Profit before taxation	382,504	774,007	5,584,584	852,829	1,552,091	1,754,975	268,005
Income tax expense	(98,921)	(196,924)	(1,395,868)	(213,165)	(385,980)	(439,603)	(67,133)
Profit for the year/period from continuing operations	283,583	577,083	4,188,716	639,664	1,166,111	1,315,372	200,872
Profit (loss) for the year/period from discontinued operations	145,291	(9,441)	31,515	4,813	31,515	–	–
Profit for the year/period	428,874	567,642	4,220,231	644,477	1,197,626	1,315,372	200,872
Profit and total comprehensive income attributable to Owners of the Company	420,297	556,289	4,195,738	640,737	1,173,133	1,315,372	200,872
Non-controlling interests	8,577	11,353	24,493	3,740	24,493	–	–
	428,874	567,642	4,220,231	644,477	1,197,626	1,315,372	200,872
Earnings per share, in RMB							
From continuing and discontinued operations							
Basic	0.08	0.11	0.84	0.128	0.23	0.26	0.04
From continuing operations							
Basic	0.06	0.11	0.83	0.127	0.23	0.26	0.04
From discontinued operations							
Basic	0.02	–	0.01	0.001	–	–	–

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,			Three months ended March 31,	
	2008	2009	2010	2010	2011
	%	%	%	%	%
Continuing Operations					
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	(93.9)	(89.6)	(62.1)	(57.1)	(64.3)
Gross profit	6.1	10.4	37.9	42.9	35.7
Other income and gain and loss	2.0	1.1	1.4	1.2	1.4
Distribution and selling expenses	(0.6)	(0.5)	(0.1)	(0.2)	(0.1)
Administrative expenses	(1.0)	(1.1)	(0.7)	(0.8)	(0.7)
Finance costs	(2.2)	(1.0)	(1.3)	(0.4)	(1.3)
Other expenses	–	–	(0.3)	–	(0.3)
Profit before taxation	4.3	8.9	36.9	42.7	34.7
Income tax (expense)	(1.1)	(2.3)	(9.2)	(10.6)	(8.7)
Profit for the year/period from continuing operations	3.2	6.6	27.7	32.1	26.0

Three months ended March 31, 2011 compared to three months ended March 31, 2010

Revenue

Our revenue increased by approximately 39.6% to approximately RMB5,065.0 million (US$773.5 million) for the three months ended March 31, 2011 from approximately RMB3,629.1 million for the three months ended March 31, 2010, primarily due to an increase in our sales volume mainly driven by our increased production capacity and output. Our sales volume of aluminum products increased by approximately 40.5% to approximately 342,116 tons for the three months ended March 31, 2011 from approximately 243,423 tons for the three months ended March 31, 2010 primarily due to our increased production capacity and output and an increase in market demand as the PRC economy recovered. The average selling price of aluminum products sold by us increased slightly during the same period from approximately RMB14,130 per ton to RMB14,290 per ton (US$2,182.3). We determined our selling price of aluminum products based on the spot market price,[1] which was mainly driven by the demand for and supply of the aluminum products in the PRC. For the three months ended March 31, 2011, the spot market price for aluminum products slightly 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. Our revenue generated from the sale of steam decreased by approximately 7.1% to approximately RMB176.0 million (US$26.9 million) for the three months ended March 31, 2011 from approximately RMB189.5 million for the three months ended March 31, 2010 primarily due to a decrease in the demand for steam by Gaoxin.

Cost of sales

Cost of sales increased by approximately 57.2% to approximately RMB3,254.7 million (US$497.0 million) for the three months ended March 31, 2011 from approximately RMB2,070.7 million for the three months ended March 31, 2010, primarily due to an increase in the sales volume of our aluminum products and an increase in the unit cost of our aluminum products. The increase of the unit cost of aluminum products was due to the increase of the average cost of raw materials and electricity. Our average purchase price of

1 As disclosed under the sub-paragraph “Sales contract term” of the section headed “Business” in this document, 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.

alumina increased to RMB1,795 (US$274.1) per ton for the three months ended March 31, 2011 as compared to RMB1,621 per ton for the three months ended March 31, 2010. This was due to the price adjustment mechanism in our alumina purchase agreement with Gaoxin, which was triggered by an increase in the average selling price of alumina to other independent third parties by Gaoxin in the second half of 2010. Our average electricity cost per ton of aluminum products sold increased by 4.8% to approximately RMB3,549 (US$542.0) for the three months ended March 31, 2011 from approximately RMB3,385 for the three months ended March 31, 2010 due to the increase in the proportion of electricity that we purchased from external suppliers, the cost of which is generally higher than that of the electricity generated by our own thermal power station.

Gross profit and gross profit margin
As a result of the foregoing, our gross profit increased by approximately 16.2% to approximately RMB1,810.3 million (US$276.5 million) for the three months ended March 31, 2011 as compared to a gross profit of approximately RMB1,558.4 million for the three months ended March 31, 2010. Our gross profit margin decreased to approximately 35.7% for the three months ended March 31, 2011 from approximately 42.9% for the three months ended March 31, 2010.

Other income and gain and loss
Other income and gain and loss increased by approximately 67.2% to approximately RMB70.3 million (US$10.7 million) for the three months ended March 31, 2011 from approximately RMB42.1 million for the three months ended March 31, 2010, primarily due to 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.

Distribution and selling expenses
Our distribution and selling expenses decreased slightly by approximately 2.7% to approximately RMB6.1 million (US$0.9 million) for the three months ended March 31, 2011 from approximately RMB6.2 million for the three months ended March 31, 2010. The relatively stable distribution and selling expenses notwithstanding the significant growth in our revenue was primarily due to our growth in revenue being largely attributable to an increase in the sales volume of our molten aluminum alloy products, the transportation cost of which is much lower than that of our other aluminum products. In addition, a larger portion of our aluminum alloy ingot customers bore the relevant cost of delivery and we did not incur any substantial incremental distribution and selling expenses relating to such sales.

Administrative expenses
Administrative expenses increased by approximately 28.0% to approximately RMB36.8 million (US$5.6 million) for the three months ended March 31, 2011 from approximately RMB28.7 million for the three months ended March 31, 2010, mainly from increases in local taxes and salaries due to our increased production.

Finance costs
Finance costs increased by approximately 398.9% to approximately RMB67.0 million (US$10.2 million) for the three months ended March 31, 2011 from approximately RMB13.4 million for the three months ended March 31, 2010. Finance costs were higher for the three months ended March 31, 2011 primarily because we had a higher amount of outstanding bank borrowings for the three months ended March 31, 2011.

Other expenses
We incurred other expenses of approximately RMB15.8 million (US$2.4 million) for the three months ended March 31, 2011 for professional services in connection with our IPO as compared for nil for the three months ended March 31, 2010.

Income tax
Income tax expense increased by approximately 13.9% to approximately RMB439.6 million (US$67.1 million) for the three months ended March 31, 2011 from approximately RMB386.0 million for the three months ended March 31, 2010 due mainly to our increased profit before taxation. The effective income tax rates applicable to us for the three months ended March 31, 2010 and 2011 were 24.9% and 25.0%, respectively.

Profit for the period from continuing operations

As a result of the significant increase in our sales volume mainly driven by our increased production capacity and output, our profit for the period from continuing operations increased by approximately 12.8% to approximately RMB1,315.4 million (US$200.9 million) for the three months ended March 31, 2011 from approximately RMB1,166.1 million for the three months ended March 31, 2010.

Profit for the period from discontinued operations

We recorded nil for profit from discontinued operations for the three months ended March 31, 2011 because we completed the disposal of our discontinued operations, namely, the dyeing business, the caustic soda manufacturing business and the alumina agency business, by the first quarter of 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue

Our revenue increased by approximately 74.6% to approximately RMB15,131.6 million for 2010 from approximately RMB8,668.4 million for 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 45.7% to approximately 1,064,775 tons for 2010 from approximately 731,043 tons for 2009 primarily due to our increased production capacity and output and an increase in market demand as the PRC economy recovered. The average selling price of our aluminum products increased by approximately 14.5% to approximately RMB13,575 per ton for 2010 from approximately RMB11,858 per ton for 2009 in line with the general increase in market prices of aluminum products as a result of an increase in demand for aluminum products as the PRC economy recovered. In addition, we started selling steam to Gaoxin and generated revenue of approximately RMB677.7 million for 2010, which also contributed to the increase in our revenue. We determined our selling price of aluminum products based on the spot market price, which was mainly driven by the demand for and supply of the aluminum products in the PRC. For 2010, the spot market price for aluminum products increased due to the increase in demand for aluminum products as a result of the recovery of the PRC economy, which was also in line with the price trend of the spot market price for alumina during the same period.

Cost of sales

Our cost of sales increased by approximately 20.9% to approximately RMB9,389.7 million for 2010 from approximately RMB7,769.1 million for 2009, primarily due to an increase in the sales volume of our aluminum products, which was partially offset by the decrease in the prices of alumina and electricity. Our cost of sales increased by a smaller percentage than the increase in our sales volume of aluminum products primarily due to decreases in our electricity cost per kWh and the average purchase price of alumina, which were partially offset by an increase in the unit cost of carbon anodes. Our average electricity cost per ton of aluminum products sold decreased by 38.2% to approximately RMB3,271 for 2010 from approximately RMB5,295 for 2009 due to (i) a decrease in the price of electricity purchased from Gaoxin as the purchase price for 2009 also included the amortized construction cost for the power grid connecting our facilities to Gaoxin'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 the electricity we used being generated by our thermal power station (as opposed to being purchased from an external supplier), the unit cost of which was significantly lower than the unit cost of electricity purchased from Gaoxin. Our average purchase price of alumina decreased to RMB1,621 per ton for 2010 as compared to RMB1,712 per ton for 2009.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased significantly to approximately RMB5,741.9 million for 2010 as compared to a gross profit of approximately RMB899.3 million for 2009. Our gross profit margin increased to approximately 37.9% for 2010 from approximately 10.4% for 2009.

Other income and gain and loss

Our other income and gain and loss increased by approximately 116.6% to approximately RMB210.5 million for 2010 from approximately RMB97.2 million for 2009, primarily due to (i) an increase in our income from sales of slag of carbon anode blocks due to an increase in the amount of slag of carbon anode blocks that we 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 from the disposal of coal ash and coal cinder from our thermal power station.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 51.2% to approximately RMB20.0 million for 2010 from approximately RMB41.0 million for 2009. The decrease in our distribution and selling expenses was mainly attributable to a decrease in our transportation cost to approximately RMB19.7 million for 2010 from approximately RMB40.2 million for 2009 as we sold a smaller proportion of aluminum alloy ingots as compared to molten aluminum alloy, which had a short delivery distance and hence the transportation cost of which was lower than that of our other aluminum products. Our average transportation cost of aluminum products sold was approximately RMB55 per ton and RMB19 per ton for 2009 and 2010, respectively.

Administrative expenses

Our administrative expenses increased by approximately 21.3% to approximately RMB112.0 million for 2010 from approximately RMB92.3 million for 2009, mainly due to an increase in our local tax payables arising from our purchase of land and our construction of new plants as port of the expansion of our manufacturing facilities in 2010.

Finance costs

Our finance costs increased by approximately 116.3% to approximately RMB193.0 million for 2010 from approximately RMB89.2 million for 2009. Finance costs were higher for 2010 due primarily to the new bank borrowings we raised in 2010 and an increase in the interest rates we paid.

Other expenses

We incurred other expenses of approximately RMB42.8 million for 2010 for professional services in connection with our IPO. We did not incur other expenses in 2009.

Income tax

Our income tax expense increased significantly to approximately RMB1,395.9 million for 2010 from approximately RMB196.9 million for 2009 due mainly to our increased profit before taxation. The effective income tax rates applicable to us for 2009 and 2010 were 25.4% and 25.0%, respectively.

Profit for the year from continuing operations

As a result of (i) a significant increase in our 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; and (ii) decrease in the unit cost of sales of our aluminum products as a result of significant decreases in our electricity cost per kWh and the unit cost of our alumina purchased, our profit for the period from continuing operations increased significantly to approximately RMB4,188.7 million for 2010 from approximately RMB577.1 million for 2009.

Profit for the period from discontinued operations

Profit from discontinued operations amounted to approximately RMB31.5 million for 2010, as compared to a loss of approximately RMB9.4 million for 2009, due primarily to the following reasons:

(i) *Dyeing business*. We had a gain of approximately RMB24.9 million from the disposal of our dyeing business for 2010, as compared to a loss of approximately RMB0.9 million for 2009.

(ii) *Caustic soda manufacturing business*. We had a gain of approximately RMB6.6 million from the disposal of the caustic soda manufacturing business for 2010, as compared to a loss of RMB6.6 million for 2009 as our caustic soda manufacturing business became operational in May 2009 and we incurred significant start-up costs in that year as a result.

(iii) *Alumina agency business*. We had losses amounting to approximately RMB1.9 million for 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
Our 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 our purchases 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, the alumina production cost of our then sole supplier, Chuangye Group, decreased due to a decline in bauxite prices driven by the global economic downturn. Our agreement with Chuangye Group allowed us to purchase alumina from it at its production cost.The purchase price of our 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
Our 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 our having 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 disposal of excess coal for 2009, because we sold such excess coal at the then prevailing market price, which was lower than our purchase cost of such excess coal. Our foreign exchange losses for 2009 primarily resulted from 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 our distribution and selling expenses was mainly attributable to a 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

Our 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 the total staff salaries and benefits we paid which was in line with increased hiring in relation to 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

Our finance costs decreased by approximately 53.8% to approximately RMB89.2 million for 2009 from approximately RMB193.0 million for 2008. Our 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

Our 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.

(iii) *Alumina agency business*. For our alumina agency business, we had losses amounting 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.

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 March 31,	
	2008	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB) (in thousands)	(RMB)	(US$)
Raw materials	213,842	142,290	376,455	373,052	56,969
Work in process	387,153	396,032	744,762	966,130	147,539
Finished goods	142,993	10,038	883	20,058	3,063
	743,988	548,360	1,122,100	1,359,240	207,571

Our inventories increased by approximately 21.1% to approximately RMB1,359.2 million (US$207.6 million) as of March 31, 2011 from approximately RMB1,122.1 million as of December 31, 2010 primarily due to increases in work in process as a result of our increased production capacity and output.

Our inventories increased by approximately 104.6% to approximately RMB1,122.1 million as of December 31, 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.

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.

The following tables set forth the ageing analysis of our inventories as of the dates indicated:

	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 in thousands)						
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	623,037	5,096	420	1,470	50,272	63,693	743,988

	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 in thousands)						
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	539,170	201	3	6	4,163	4,817	548,360

	As of December 31, 2010						
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	Total
	(RMB in thousands)						
Raw materials	342,912	14,351	506	6,143	2,283	10,260	376,455
Finished goods	883	–	–	–	–	–	883
Work in process ..	744,423	339	–	–	–	–	744,762
Total	1,088,218	14,690	506	6,143	2,283	10,260	1,122,100

	As of March 31, 2011						
	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 1 year	Total
	(RMB in thousands)						
Raw materials	335,413	21,347	3,903	1,435	726	10,228	373,052
Finished goods	18,383	97	811	767	–	–	20,058
Work in process ..	966,130	–	–	–	–	–	966,130
Total	1,319,926	21,444	4,714	2,202	726	10,228	1,359,240

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 three years ended December 31, 2010 and the three months ended March 31, 2011. Our trade receivables decreased significantly as of March 31, 2011 as we further improved our collection of outstanding balances from customers.

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 March 31,		
	2008		2009		2010		2011		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
0-90 days	212,494	99.2	180,078	99.5	3,716	100.0	3,819	583	100.0
91-180 days ..	–	–	920	0.5	–	–	–	–	–
1-2 years	1,700	0.8	–	–	–	–	–	–	–
Total	214,194	100.0	180,998	100.0	3,716	100.0	3,819	583	100.0

We did not have trade receivables as of March 31, 2011 that were past due.

Trade payables

Our trade payables increased by approximately 15.3% to approximately RMB1,205.7 million (US$184.1 million) as of March 31, 2011 from approximately RMB1,045.9 million as of December 31, 2010, primarily due to our increased trade payables relating to the purchase of raw materials and the construction under development.

Our trade payables increased by approximately 165.3% to approximately RMB1,045.9 million as of December 31, 2010 from approximately RMB394.3 million as of December 31, 2009, primarily due to our increased 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.

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 March 31,		
	2008		2009		2010		2011		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
0-180 days	917,623	92.4	340,606	86.4	1,035,456	99.0	1,179,576	180,135	97.9
180-365 days	52,290	5.3	11,782	3.0	4,049	0.4	17,152	2,619	1.4
1-2 years	21,979	2.2	36,746	9.3	5,060	0.5	7,528	1,150	0.6
More than 2 years	842	0.1	5,212	1.3	1,341	0.1	1,442	220	0.1
Total	992,734	100.0	394,346	100.0	1,045,906	100.0	1,205,698	184,124	100.0

Our trade payables due between one and two years as of December 31, 2008, were primarily attributable 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, 2008. Our trade payables that were due between one and two years increased as of December 31, 2009, primarily due to our purchases of equipment used in the expansion of our thermal power station in 2008, payment for which was not due until it was commissioned in 2010. Our trade payables that were due between one and two years decreased significantly as of December 31, 2010, primarily because we paid off some trade payables which were due. Our trade payables that were due between six months to 12 months as well as one and two years increased were primarily related to the construction of our manufacturing bases as of March 31, 2011.

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,			Three months ended March 31,
	2008	2009	2010	2011
				(unaudited)
Turnover days of inventories[(1)]	33	30	32	34
Turnover days of trade receivables[(2)]	2	2	1	0.1
Turnover days of trade payables[(3)]	38	33	28	31

(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 90 days for the three months ended March 31, 2011.

(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 90 days for the three months ended March 31, 2011.

(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 90 days for the three months ended March 31, 2011.

Our turnover days of inventories in 2009 decreased 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 in 2010 increased to 32 days from 30 days in 2009 primarily due to an increase in our inventory of raw materials resulting from our expanded operations which also resulted in an increase in work-in-process. Our turnover days of inventories increased to 34 days in the three months ended March 31, 2011 primarily due to an increase in the production of our products.

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 33 days in 2009 from 38 days and further to 28 days in 2010 due primarily to our having a significantly lower amount of trade payables as of December 31, 2009 and 2010 as we settled certain trade payables related to the price of equipment for our production lines in 2009. Our turnover days of trade payables were 31 days as of March 31, 2011.

Subsequent utilization of inventories and subsequent settlement of trade receivables and trade payables

The following table sets forth information regarding our subsequent utilization of inventories and subsequent settlement of trade receivables and trade payables:

	As of March 31, 2011		Subsequent utilization/ settlement by April 30, 2011
	(RMB)	(US$)	(RMB)
		(in thousands) (unaudited)	
Inventories	1,359,240	207,571	1,331,912
Trade receivables	3,819	583	3,819
Trade payables	1,205,698	184,124	1,026,374
Bills receivable	877,201	133,959	250,516

As the endorsed bank bills we received usually have a maturity term of six months, as of April 30, 2011, approximately RMB250.5 million of the endorsed bank bills had been settled, which were outstanding as of March 31, 2011. We expect this remaining outstanding amount as of March 31, 2011 to be settled gradually by the end of September 2011.

Liquidity and Capital Resources

Liquidity

We fund our operations primarily with funds raised in capital markets, 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.

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 March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
CURRENT ASSETS						
Inventories	743,988	548,360	1,122,100	171,357	1,359,240	207,571
Trade receivables	34,555	44,416	3,716	567	3,819	583
Bills receivable	1,645,045	763,370	882,570	134,779	877,201	133,958
Prepayments and other receivables	122,826	15,377	156,741	23,936	106,106	16,204
Amounts due from related parties	160,067	153,756	–	–	–	–
Prepaid lease payments – current portion	229	–	3,015	460	6,514	995
Tax recoverable	74,726	97,790	–	–	–	–
Restricted bank deposits ..	195,615	760,646	82,650	12,622	76,221	11,640
Bank balances and cash ...	117,949	443,133	2,669,569	407,674	7,793,263	1,190,120
	3,095,000	2,826,848	4,920,361	751,395	10,222,364	1,561,071
Financial assets contracted for Alumina Production Business	1,237,382	1,029,762	–	–	–	–
Assets classified as held for sale	–	1,613,854	–	–	–	–
	4,332,382	5,470,464	4,920,361	751,395	10,222,364	1,561,071
CURRENT LIABILITIES						
Trade payables	992,734	394,346	1,045,906	159,722	1,205,698	184,124
Bills payable	100,000	310,000	–	–	–	–
Other payables	957,713	848,059	805,425	122,998	765,789	116,945
Amounts due to related parties	3,471,942	3,556,479	–	–	–	–
Income tax payable	–	–	157,974	24,124	216,476	33,058
Bank borrowings – due within one year	869,970	929,173	72,850	11,125	847,120	129,365
	6,392,359	6,038,057	2,082,155	317,969	3,035,083	463,492
Financial liabilities contracted for Alumina Production Business	1,488,847	1,105,843	–	–	–	–
Liabilities associated with assets classified as held for sale	–	980,551	–	–	–	–
	7,881,206	8,124,451	2,082,155	317,969	3,035,083	463,492
NET CURRENT (LIABILITIES) ASSETS	(3,548,824)	(2,653,987)	2,838,206	433,426	7,187,281	1,097,579

Net current assets

As of March 31, 2011, our net current assets were approximately RMB7,187.3 million (US$1,097.6 million), consisting of current assets of approximately RMB10,222.4 million and current liabilities of approximately RMB3,035.1 million. Our current assets mainly included bank balances and cash of approximately RMB7,793.3 million, inventories of approximately RMB1,359.2 million and bills receivables of approximately RMB877.2 million. Our current liabilities mainly included trade payables of approximately RMB1,205.7 million, borrowings due within one year of approximately RMB847.1 million and other payables of approximately RMB765.8 million.

We had net current liabilities of approximately RMB3,548.8 million and RMB2,654.0 million as of December 31, 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. We had net current assets of approximately RMB2,838.2 million as of December 31, 2010, primarily because (i) we paid back amounts due to related parties, (ii) we increased the amount of our long-term borrowings, and (iii) our profitability has been improved, which in turn led to the increase of our cash and cash equivalent. The increase in our net current assets as of March 31, 2011 as compared to December 31, 2010, was primarily due to an increase in our cash assets as a result of our IPO and an increase in our inventories.

Cash flows

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. As of March 31, 2011, we had cash and cash equivalents of RMB7,793.3 million (US$1,190.1 million). The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,				Three months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**	**2011**
	(RMB)	**(RMB)**	**(RMB)**	**(US$)**	**(RMB)**	**(US$)**
	(in thousands)					
					(unaudited)	
Net cash generated from operating activities	1,116,715	1,923,575	4,772,464	728,810	1,540,195	235,205
Net cash used in investing activities	(1,798,773)	(1,472,690)	(1,814,002)	(277,019)	(2,277,650)	(347,823)
Net cash from (used in) financing activities	671,672	(39,889)	(817,838)	(124,893)	5,861,149	895,064
Net (decrease)/increase in cash and cash equivalents	(10,386)	410,996	2,140,624	326,898	5,123,694	782,446
Cash and cash equivalents at beginning of year/period	128,335	117,949	528,945	80,776	2,669,569	407,674
Cash and cash equivalents at end of year/period	117,949	528,945	2,669,569	407,674	7,793,263	1,190,120

Net cash generated from operating activities

For the three months ended March 31, 2011, we generated net cash from our operating activities of approximately RMB1,540.2 million (US$235.2 million), reflecting net profit for the period of approximately RMB1,315.4 million (US$200.9 million) and an increase in income tax expense of approximately RMB439.6 million (US$67.1 million), as partially offset by an increase in inventories of approximately RMB237.1 million (US$36.2 million).

In 2010, we generated net cash from our operating activities of approximately RMB4,772.5 million, reflecting net profit for the year of approximately RMB4,220.2 million and an increase in income tax expense of approximately RMB1,395.9 million, as partially offset by an increase in inventories of approximately RMB575.7 million and decrease in payables, deposits received and accrued charges of approximately RMB534.3 million.

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.

Net cash used in investing activities

The principal items affecting our net cash used in investing activities during the three years ended December 31, 2010 and the three months ended March 31, 2011 were our capital expenditures for purchase of property, plant and equipment.

Net cash used in investing activities was approximately RMB2,277.7 million (US$347.8 million) for the three months ended March 31, 2011. That amount reflected primarily cash used for purchase of property, plant and equipment of approximately RMB2,125.5 million (US$324.6 million), and addition to prepaid lease payments of approximately RMB159.9 million (US$24.4 million).

Net cash used in investing activities was approximately RMB1,814.0 million for 2010. That amount reflected primarily cash used for purchase of property, plant and equipment of approximately RMB2,715.1 million, acquisition of Zhengtong of approximately RMB176.0 million, as partially offset by a decrease in restricted bank deposits of approximately RMB678.0 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. That 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. That 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 generated from (used in) financing activities

Our financing activities during the three years ended December 31, 2010 and the three months ended March 31, 2011 mainly included proceeds from and repayments of loans and borrowings as well as proceeds from our IPO.

Net cash generated from financing activities for the three months ended March 31, 2011 was approximately RMB5,861.1 million (US$895.1 million). That amount reflected primarily proceeds from issue of shares of approximate RMB5,365.0 million (US$819.3 million) and new borrowings raised of approximately RMB700.0 million (US$106.9 million), partially offset by shares issue expenses paid of approximately RMB136.9 million (US$20.9 million).

Net cash used in financing activities for 2010 was approximately RMB817.8 million. That amount reflected primarily repayments to related parties of approximately RMB7,965.7 million and repayment of bank borrowings of approximately RMB1,394.1 million, as partially offset by advances from related parties of approximately RMB4,470.8 million and new bank borrows of approximately RMB4,334.4 million.

Net cash used in financing activities in 2009 was approximately RMB39.9 million. That 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 generated from financing activities in 2008 was approximately RMB671.7 million. That 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.

Certain Balance Sheet Items

Intangible assets

Our intangible assets consisted 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 (the value of the Agency Agreement was recognized as an intangible asset commencing on our obtaining control of Aluminum & Power) 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 have been amortized on a straight-line basis over their estimated useful lives of 3.6 years.

	(RMB in thousands) (unaudited)
COST	
At January 1, 2008, December 31, 2008, 2009 and 2010 and March 31, 2011	443,000
AMORTIZATION	
At January 1, 2008	195,744
Charge for the year	123,628
At December 31, 2008	319,372
Charge for the year	123,628
At December 31, 2009	443,000
Charge for the year	–
At December 31, 2010 and March 31, 2011	443,000
CARRYING VALUES	
At December 31, 2008	123,628
At December 31, 2009	–
At December 31, 2010 and March 31, 2011	–

The intangible assets charged for our continuing operations were approximately RMB11.7 million, RMB11.7 million and nil for 2008, 2009 and 2010, respectively. The intangible assets charged for our discontinued operations were approximately RMB111.9 million, RMB111.9 million and nil for the same periods.

Bills receivable

Our bills receivable slightly decreased to approximately RMB877.2 million (US$134.0 million) as of March 31, 2011 from approximately RMB882.6 million as of December 31, 2010.

Our bills receivable increased by approximately 15.6% to approximately RMB882.6 million as of December 31, 2010 from approximately RMB763.4 million as of December 31, 2009, primarily due to an increase in our sales of aluminum products for 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.

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 years ended December 31 2008, 2009 and 2010, 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, 2008, 2009 and 2010, 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 March 31, 2011.

Details of the financial instruments contracted for the alumina production business of Chuangye Group are as follows:

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Financial assets						
Trade receivables	179,639	128,549	–	–	–	–
Bills receivable	826,515	678,259	–	–	–	–
Other receivables	–	1,173	–	–	–	–
Trade receivables due from related parties ...	231,228	221,781	–	–	–	–
	1,237,382	1,029,762	–	–	–	–

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Financial liabilities						
Trade payables	666,422	312,439	–	–	–	–
Bills payable	200,000	340,000	–	–	–	–
Other payables	25,069	1,743	–	–	–	–
Trade payables due to related parties	562,506	402,661	–	–	–	–
Bank borrowings	34,850	49,000	–	–	–	–
	1,488,847	1,105,843	–	–	–	–

Amounts due from/to related parties

As of December 31, 2008, 2009 and 2010 and March 31, 2011, we had amounts due from related parties totaling approximately RMB160.1 million, approximately RMB270.0 million (inclusive of assets held for sale), nil and nil, respectively, and amounts due to related parties totaling approximately RMB3,471.9 million, approximately RMB3,646.8 million (inclusive of liabilities associated with assets held for sale), nil and nil as of those dates, respectively.

Our 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 were unsecured, non-interest bearing and payable on demand except for the amounts due to Chuangye Group of approximately RMB946.5 million and RMB393.2 million as of December 31, 2008 and 2009, respectively, 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, 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 during the three years ended December 31, 2010 and the three months ended March 31, 2011 involved Chuangye Group and Chuangye Aluminum Technology. Our transactions with Chuangye Group included primarily our acquisition of certain land use rights and aluminum production facilities from Chuangye Group and our operation of Chuangye Group's alumina business pursuant to the Agency Agreement. Our transactions with Chuangye Aluminum Technology included primarily our purchases of carbon anodes from Chuangye Aluminum Technology and our sales of carbon anode scrap.

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. 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

Prepayments and other receivables primarily comprise prepayments to suppliers, value added tax receivables and other receivables. The following table sets forth a breakdown of our prepayments and other receivables for the periods indicated.

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Prepayment to suppliers ...	108,693	5,235	58,832	8,984	16,269(1)	2,485(1)
Value added tax receivables	–	–	97,191	14,842	88,875	13,572
Other receivables	14,133	10,142	718	110	962	147
	122,826	15,377	156,741	23,936	106,106	16,204

(1) The prepayment to Gaoxin in the amount of RMB481.7 million (US$73.6 million) was offset by the trade payables to Gaoxin.

Our prepayments and other receivables decreased from RMB156.7 million as of December 31, 2010 to RMB106.1 million (US$16.2 million) as of March 31, 2011, primarily due to the increase of value added tax receivables which were attributable to value added tax paid by Zhengtong for its equipment and materials and a decrease in our prepayment to suppliers for the materials and equipment components. 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. The prepayment to suppliers as of March 31, 2011 were attributable to our prepayment to suppliers for the materials and equipment components.

Restricted bank deposits

Our restricted bank deposits were RMB76.2 million (US$11.6 million) as of March 31, 2011 compared with approximately RMB82.7 million as of December 31, 2010, primarily due to the return of deposit in connection with letters of credit issued in the first quarter of 2011.

Our restricted bank deposits were RMB82.7 million as of December 31, 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 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.

Other payables

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
	(in thousands)					
					(unaudited)	
Other deposits, payables and accruals	225,130	134,848	131,715	20,115	161,631	24,683
Advance from customers ..	475,107	322,094	457,576	69,877	366,705	56,000
Accrued payroll and welfare	39,482	18,821	10,989	1,678	11,690	1,785
Other tax payable	217,994	372,296	205,145	31,328	225,763	34,477
	957,713	848,059	805,425	122,998	765,789	116,945

Other tax payable primarily includes VAT and other local tax. We had other tax payable of approximately RMB225.8 million (US$34.5 million) as of March 31, 2011.

Our other payables decreased by approximately 4.9% to approximately RMB765.8 million (US$117.0 million) as of March 31, 2011 from approximately RMB805.4 million as of December 31, 2010 primarily due to a decrease in advances from customers.

Our other payables decreased by approximately 5.0% to approximately RMB805.4 million as of December 31, 2010 from approximately RMB848.1 million as of December 31, 2009 primarily due to a decrease in our tax payables.

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.

Income tax payable

We had income tax payable of approximately nil, nil, RMB158.0 million and RMB216.5 million (US$33.1 million) as of December 31, 2008, 2009 and 2010 and March 31, 2011, 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, 2010 and March 31, 2011 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 year of 2010 and the three months ended March 31, 2011, because our profit before taxation increased to approximately RMB5,584.6 million and RMB1,755.0 million (US$268.0 million) from approximately RMB774.0 million for 2009 and RMB1,552.1 million for the three months ended March 31, 2010, respectively. As a result, we had approximately RMB158.0 million and RMB216.5 million (US$33.1 million) income tax payable as of December 31, 2010 and March 31, 2011, respectively. We had paid such tax as of the date of this document.

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 2008, 2009, 2010 and the three months ended March 31, 2011:

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Property, plant and equipment	1,908,170	1,089,144	2,949,476	450,419	2,029,218	309,885

The total budgeted capital expenditure for the expansion of our aluminum production facilities and the expansion of our electricity production facilities based on our current plans is approximately RMB5.59 billion and RMB4.62 billion, respectively. We expect our capital expenditure for 2011 to be approximately RMB10,602.3 million. As of March 31, 2011, the carrying amount of property, plant and equipment for the expansion of our manufacturing bases and our thermal power station was approximately RMB3,292.8 million (US$502.8 million), and the relevant capital commitment was approximately RMB8,679.6 million (US$1,325.5 million).

Capital commitments

The table below sets forth the breakdown of our capital commitments as of the dates indicated:

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Capital expenditure in respect of acquisition of property, plant and equipment						
– contracted for but not provided	558,659	365,039	178,733	27,295	2,043,093	312,004
– authorized but not contracted for	–	–	2,650,614	404,779	6,636,481	1,013,466
	558,659	365,039	2,829,347	432,074	8,679,574	1,325,470

Our capital commitments increased significantly to RMB8,679.6 million (US$1,325.5 million) as of March 31, 2011 from RMB178.7 million as of December 31, 2010, which was primarily due to the expansion of our manufacturing bases as well as the expansion of our electricity output. In addition, although we had entered into a number of construction contracts for the expansion of our Binzhou manufacturing base and the expansion of our thermal power station, 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, one of our subsidiaries, and Wuhan Boiler dated July 11, 2003, seeking for the payment of the purchase price and the refund of a quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, overdue payment charges of approximately RMB57.5 million and relevant litigation expenses. As of March 31, 2011, this case was 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 (US$8.0 million) in relation to the litigation brought by Wuhan Boiler. In the opinion of our Directors, the other claims made by Wuhan Boiler, including those for damages, overdue payment charges 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 us against 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 and Aluminum & Power, one of our subsidiaries, in 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 overdue payment charges of approximately RMB51.5 million and relevant litigation expenses, which Wuhan Boiler alleges Gaoxin and Aluminum & Power should be jointly and severally responsible for. On November 17, 2010, Wuhan Boiler initiated legal proceedings against Gaoxin 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 the purchase price of RMB32.7 million, damages of approximately RMB13.0 million, overdue payment charges of approximately RMB96.8 million and relevant litigation expenses, which Wuhan Boiler alleges Gaoxin and Aluminum & Power should be jointly and severally responsible for. As of March 31, 2011, these two cases were still at preliminary stages. 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 March 31, 2011, our Group had contingent liabilities in respect of these disputes of approximately RMB335.0 million (US$51.2 million) and the relevant litigation expenses. Our Controlling Shareholders have agreed to indemnify us for any losses incurred by Aluminum & Power or 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 agreed to indemnify us for any losses incurred by Aluminum & Power or 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 – Recent Developments" and "Business – Legal Proceedings."

Indebtedness

Borrowings

As of March 31, 2011, we had total borrowings of RMB4,733.1 million (US$722.8 million), which consisted entirely of bank borrowings. The following table sets forth our bank borrowings as of the dates indicated.

	As of December 31,				As of March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Secured bank borrowings[(1)]	97,500	22,000	89,850	13,721	89,120	13,610
Unsecured bank borrowings	1,452,007	1,022,492	3,944,000	602,294	4,644,000	709,191
Total	1,549,507	1,044,492	4,033,850	616,015	4,733,120	722,801

(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 March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Fixed-rate bank borrowings	354,938	233,890	1,472,850	224,921	1,472,120	224,809
Floating-rate bank borrowings	1,194,569	810,602	2,561,000	391,094	3,261,000	497,992
	1,549,507	1,044,492	4,033,850	616,015	4,733,120	722,801

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 March 31,	
	2008	2009	2010	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in thousands)			
					(unaudited)	
Banks borrowings repayable:						
Within one year	869,970	929,173	72,850	11,125	847,120	129,365
In the second year	414,032	115,319	–	–	1,736,000	265,107
In the third year	175,505	–	3,661,000	559,077	2,075,000	316,876
In the fourth year	60,000	–	–	–	75,000	11,453
In the fifth year	30,000	–	300,000	45,813	–	–
In the sixth year	–	–	–	–	–	–
	1,549,507	1,044,492	4,033,850	616,015	4,733,120	722,801

We are charged interest rates on our fixed interest rate borrowings at the prevailing market rates, which ranged from 6.12% to 8.39%, 1.65% to 8.22%, 5.58% to 5.73% and 5.58% to 5.73% per annum for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. We are charged interest rates on our borrowings at floating rates 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, 2008, 2009 and 2010 and three months ended March 31, 2011 were 7.10%, 4.88%, 5.60% and 5.87% 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 three years ended December 31, 2010 and the three months ended March 31, 2011.

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 have been released or withdrawn.

We previously had bank loans of RMB3,761 million that were guaranteed by Chuangye Group. These guarantees were released prior to November 2010.

As of March 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 March 31, 2011.

In addition, our Group had outstanding at March 31, 2011 contingent liabilities in respect of disputes with a supplier of approximately RMB335.0 million and the relevant litigation expenses, which relate to our legal proceedings with respect to the boiler supply agreement dated June 26, 2007 between Aluminum & Power and Wuhan Boiler. See "Business – Legal Proceedings."

For more information on our material indebtedness, see "Description of Other Material Indebtedness."

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 March 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.

Off-Balance Sheet Commitments and Arrangements

As of March 31, 2011, we had not entered into any off-balance sheet transactions.

Quantitative and Qualitative Disclosure about Market Risk

We are, in the normal course of business, exposed to market risk such as interest rate risks, risks relating to fluctuations in the selling prices of aluminum products, commodity prices and electricity purchase prices, liquidity risks, credit risks and foreign currency risks. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Interest rate risk

Our interest rate risk is comprised of fair value interest rate risk and cash flow interest rate risk. Our fair value interest rate risk relates primarily to our fixed-rate bank borrowings which are 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 our exposure to interest rate risk. However, our management will consider hedging significant interest rate exposure should the need arise.

Aluminum products selling price risk

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 the price of aluminum products. The following table shows the decrease/increase in our revenue and gross profit in different scenarios, assuming all other factors remained the same, for the periods indicated:

Decrease/increase in average selling price of our aluminum products	Decrease/increase for 2008		Decrease/increase for 2009		Decrease/increase for 2010		Decrease/increase for three months ended March 31, 2011	
	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit
	(RMB in millions)							
1.0%	87.7	87.7	86.7	86.7	144.5	144.5	48.9	48.9
5.0%	438.6	438.6	433.4	433.4	722.7	722.7	244.4	244.4
10.0%	877.2	877.2	866.9	866.9	1,445.4	1,445.4	488.9	488.9

Commodity and electricity purchase price risk

Alumina is the major raw material used in the production of our products and the purchase of alumina accounted for over 30% of our total cost of sales in the three years ended December 31, 2010 and the three months ended March 31, 2011. Fluctuations in the commodity price of alumina will have a significant impact on our earnings, cash flows as well as the value of our inventories. See "Risk Factors – If we fail to obtain sufficient amounts of raw materials that meet our quality standards and at commercially acceptable prices, our business, financial condition and results of operations will be materially and adversely affected." In addition, we are exposed to commodity price risk from fluctuations in the price of aluminum as we generate our revenue primarily from sales of aluminum products in China. We have not entered into any derivative instruments or futures to hedge against any fluctuations in alumina or aluminum prices. Therefore, fluctuations of alumina and aluminum prices could have a significant effect on our revenue and profit for a given period.

The following table shows the increase in our purchase of alumina in different scenarios, assuming all other factors remained the same, for the periods indicated:

Increase in average purchase price of alumina	Increase in purchase of alumina for 2008	Increase in purchase of alumina for 2009	Increase in purchase of alumina for 2010	Increase in purchase of alumina for the three months ended March 31, 2011
	(in millions)			
1.0%	30.0	23.8	34.2	12.2
5.0%	149.8	119.1	171.1	61.0
10.0%	299.6	238.2	342.1	122.0

Electricity is a principal component of our costs and we face risks from fluctuations in the purchase price of electricity. See "Risk Factors – Risks Relating to our Business – If our electricity costs increase significantly or if we are unable to obtain sufficient electricity supply, our business, financial condition and results of operations will be materially and adversely affected." We purchased electricity from external suppliers in an aggregate amount of approximately RMB2,369.2 million, RMB3,210.6 million, RMB1,875.9 million and RMB758.7 million (US$115.9 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. This represented 28.8%, 41.3%, 20.0% and 23.3% of our total costs for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

The following table shows the increase in our purchase price of electricity from our external supplier in different scenarios, assuming all other factors remained 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 2008	Increase in purchase of electricity from external supplier for 2009	Increase in purchase of electricity from external supplier for 2010	Increase in purchase of electricity from external supplier for the three months ended March 31, 2011
	(RMB in millions)			
1.0%	23.7	32.1	18.8	7.6
5.0%	118.5	160.5	93.8	37.9
10.0%	236.9	321.1	187.6	75.9

The following table sets forth, assuming that we purchased alumina at the average spot market price in China for the three years ended December 31, 2010 and the three months ended March 31, 2011 and we purchased electricity at the benchmark price of Shandong Province for the three months ended March 31, 2011, which were higher than our average purchase prices of alumina and electricity, and that all other factors, including change in inventories, remained unchanged, the impacts on our net profits for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2008	2009	2010	2011
Net profit of continuing operations (before minority interests)	283.6	577.1	4,188.7	1,315.4
Difference of alumina[(1)]	(350.9)	(300.5)	(1,154.6)	(300.7)
Difference of electricity[(2)]	–	–	(130.8)	(52.9)
Adjusted net profit of continuing operations (before minority interests)[(3)]	(67.3)	276.6	2,903.3	961.8

(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 three years ended December 31, 2010 and the three months ended March 31, 2011, it is not necessary to make the adjustment to our financial results based on coal price changes.

Liquidity risk

We had net current liabilities as of December 31, 2008 and 2009 of approximately RMB3,548.8 million and RMB2,654.0 million, respectively, as we took advantage of the financing from amounts due to related parties to partly finance our operation in 2008 and 2009 and utilized short-term bank borrowings for expanding our business. See "Risk Factors – We had net current liabilities as of December 31, 2008 and 2009." 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 receive advances from customers. As of December 31, 2010 and March 31, 2011, we had net current assets of approximately RMB2,838.2 million and RMB7,187.3 million (US$1,097.6 million), respectively.

We have built a liquidity risk management framework for the management of our short-, medium- and long-term funding and liquidity requirements. We monitor and maintain a level of cash and cash equivalents that our management deems adequate to finance our operations for the coming 12 months 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 cash generated from operating activities, we rely on bank loans. Our management monitors our utilization of bank borrowings and compliance with loan covenants. In addition, we have established a team to review and forecast our working capital situation on a regular basis.

Credit risk

We are exposed to credit risk primarily arising from 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 may result in a financial loss due to the failure to discharge an obligation by the counterparties is represented by the carrying amount of the respective recognized financial assets stated in the combined statement of financial position.

We had concentration of credit risk in respect of trade receivables as our largest trade receivable amounted to RMB16.9 million, RMB29.9 million, RMB1.8 million and RMB1.8 million (US$0.3 million), representing 7.9%, 16.5%, 47.4% and 45.9% of our total trade receivables as of those dates, respectively. Our five largest trade receivables amounted to RMB45.6 million, RMB56.2 million, RMB3.7 million and RMB3.8 million (US$0.6 million) representing 21.3%, 31.1%, 99.4% 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 the 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. By these measures, we consider that our credit risk is significantly reduced.

Foreign currency risk

We collect all of our revenue in RMB and incur most of our expenses as well as our capital expenditures in RMB. Certain bank balances and borrowings are denominated in foreign currencies which expose us to currency risk. See "Risk Factors – Risks Relating to Doing Business in the PRC – We face foreign exchange and conversion risks, and fluctuations in the value of the RMB may have a material adverse effect on your investment." If the exchange rate of USD to RMB had increased/decreased by 5% while all other variables remained constant, our profit for 2008, 2009, 2010 and three months ended March 31, 2011 would have decreased/increased by approximately RMB32.0 million, RMB26.6 million, RMB2.6 million and RMB2.6 million (US$0.4 million), respectively. We have not used any financial instruments to hedge against currency risk. However, our management monitors foreign exchange exposure and may consider hedging significant foreign currency exposure should the need arise.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our profit from continuing operations before the following items:

- interest income/expense;
- amortization of intangible assets;
- income tax expense; and
- depreciation.

EBITDA is not a standard measure under U.S. GAAP or IFRS. As the aluminum product manufacturing business in the PRC is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit for the year/period. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year/period under IFRS to our definition of EBITDA of the period indicated.

	Year Ended December 31,				Three Months Ended March 31,		
	2008	**2009**	**2010**	**2010**	**2010**	**2011**	**2011**
	(RMB)	**(RMB)**	**(RMB)**	**(US$)**	**(RMB)**	**(RMB)**	**(US$)**
				(in thousands)			
Profit before taxation	382,504	774,007	5,584,584	852,830	1,552,091	1,754,975	268,005
Adjustment							
Interest income	(3,327)	(8,714)	(8,639)	(1,319)	(2,688)	(1,344)	(205)
Finance costs	193,018	89,243	192,990	29,472	13,428	66,998	10,231
Depreciation and amortization	329,757	404,337	601,081	91,792	139,369	173,855	26,550
EBITDA	901,952	1,258,873	6,370,016	972,775	1,702,200	1,994,484	304,581

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under IFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. Interest expense excludes amounts capitalized.

OVERVIEW

We are the fourth-largest aluminum product manufacturer in China, which is the largest and fastest growing major aluminum market in the world in terms of designed annual aluminum production capacity as of March 31, 2011, according to Antaike. China has been the largest aluminum consumer globally since 2005 and consumed in 2010 approximately 41.4% of world total consumption, according to Antaike.

We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes Gaoxin, our primary raw material supplier, and a majority of our down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. Shandong Province is 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. Due to their close proximity to us, our molten aluminum alloy customers avoid transportation costs and costs associated with smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs.

We have three manufacturing bases, our Zouping, Weiqiao and Binzhou manufacturing bases. As of March 31, 2011, these manufacturing bases had an aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products. We are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. As our three manufacturing bases are in close geographic proximity to each other (within 80 km of each other) and are connected by our private power supply grid, we enjoy cost advantages and high operational efficiency through centralized power supply management and centralized procurement of raw materials and electricity. Our designed production capacity of aluminum products on a weighted average annualized basis was approximately 601,085 tons, 738,973 tons, 970,496 tons and 1,231,664 tons for the three years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, with utilization rates of approximately 102.6%, 98.3%, 110.9% and 111.7%, respectively, during the same periods.

Our History

Our history can be traced back to the establishment of Shandong Hongqiao, a sino-foreign joint venture, by Chuangye Group and an independent third party in 1994. In September 2006 and April 2007, a subsidiary of Shandong Hongqiao, Aluminum & Power, acquired from Chuangye Group certain aluminum production facilities with an aggregate designed annual production capacity of approximately 156,000 tons and 100,000 tons, respectively. By the end of 2009, the aggregate designed weighted average annual production capacity of Shandong Hongqiao and Aluminum & Power was increased to approximately 738,973 tons through their construction of new aluminum products manufacturing facilities. On January 4, 2010, Shandong Hongqiao acquired relevant aluminum production facilities with an annual production capacity of 160,000 tons owned by Chuangye Group. In order to streamline and prepare our corporate structure for our IPO, the companies comprising our Group, including Aluminum & Power and Shandong Hongqiao, underwent the Reorganization and, as a result, our Company became the holding company of the Group.

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 primary aluminum. Our aluminum products are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. We sold approximately 610,057 tons, 731,043 tons, 1,064,775 tons and 342,116 tons of aluminum products for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 56.5%, 61.5%, 84.4% and 76.6% of our revenue derived from aluminum products for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively.

Compared with the production of aluminum alloy ingots, the production of molten aluminum alloy allows us to avoid incurring significant molding and other relevant costs. By purchasing molten aluminum alloy, our customers avoid transportation costs and the cost of smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs. We are able to provide our customers with molten aluminum alloy due to our close proximity to them, which, we believe, provides us with significant cost and operational advantages and results in other synergies. All of our aluminum alloy ingots are produced with self-manufactured molten aluminum alloy. Aluminum busbars are electrolytic aluminum blocks.

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

	Year ended December 31,											
	2008				2009				2010			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	903,099	12,204.1	13,514	80.7%
Aluminum alloy ingot	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	157,240	2,183.0	13,883	14.4%
Aluminum busbar	–	–	–	–	7,159	90.2	12,609	1.0%	4,436	66.8	15,058	0.4%
Subtotal	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	1,064,775	14,453.9	13,575	95.5%
Steam	–	–	–	–	–	–	–	–	5,105,024	677.7	133	4.5%
Total		8,772.2		100.0%		8,668.4		100.0%		15,131.6		100.0%

	Three months ended March 31,							
	2010				2011			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy	164,876	2,312.2	14,024	63.7%	261,455	3,742.8	14,315	73.9%
Aluminum alloy ingot	74,111	1,060.6	14,311	29.2%	80,661	1,146.2	14,210	22.6%
Aluminum busbar	4,436	66.8	15,058	1.9%	–	–	–	–
Subtotal	243,423	3,439.6	14,130	94.8%	342,116	4,889.0	14,290	96.5%
Steam	1,427,718	189.5	133	5.2%	1,326,290	176.0	133	3.5%
Total		3,629.1		100.0%		5,065.0		100.0%

Our Performance

We have achieved significant growth in our sales volume of aluminum products since our inception and over the past three years. We sold approximately 610,057 tons, 731,043 tons, 1,064,775 tons and 342,116 tons of aluminum products for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and generated revenue of approximately RMB8,772.2 million, RMB8,668.4 million, RMB14,453.9 million and RMB4,889.0 million (US$746.6 million) for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. 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.

Our Main Cost Items

Our two main cost items in the production of aluminum are alumina and electricity. These two cost items accounted for approximately 36.4% and 37.1% of our total cost of sales, respectively, in 2010, and approximately 37.5% and 37.3% in the three months ended March 31, 2011.

We benefit from arrangements in relation to the key inputs into our aluminum products. Chiefly, these include (i) cost advantages from the production of a significant amount of the electricity that we use for the production of our aluminum products at our thermal power station, (ii) our self-owned power grid, (iii) cost advantages from purchasing off-grid electricity from Gaoxin, and (iv) pricing discounts resulting from our bulk purchases of alumina from our principal supplier of alumina, Gaoxin. In the three months ended March 31, 2011, we produced 44.8% of the electricity we used in our production of aluminum products at our thermal power station. We produced this electricity at a cost below the purchase price of electricity that we purchase externally. The remainder of our electricity requirements were purchased from Gaoxin pursuant to a direct power supply agreement and delivered via our self-owned power grid. The purchases of electricity of the Group from Gaoxin accounted for approximately 66.5% and 83.8% of their total electricity output for 2010 and the three months ended March 31, 2011, respectively. Due to the off-grid structure and bulk purchases of the Group, it has been able to purchase its electricity from Gaoxin at a cost below average on-grid electricity prices. Moreover, we purchased approximately 47.8% and 65.6% of the total volume of alumina sold by Gaoxin for 2010 and the first three months ended March 31, 2011, respectively. Due to the significant volume of alumina that we purchase from Gaoxin and Gaoxin's close proximity to our operations, we believe that we have been able to negotiate price discounts with respect to such alumina purchases. Gaoxin is an independent third party, in which the Labor Union Committee of Shandong Zouping Economic Development Zone holds substantially all of the beneficial interest. It has significant operations, including an aggregate installed capacity of 1,880 MW of electricity, an aggregate designed annual production capacity of 4,000,000 tons of alumina, over 8,300 employees and net assets as of March 31, 2011 of approximately RMB6.3 billion (US$962.1 million).

Alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 36.4%, 30.7%, 36.4% and 37.5% of our total cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Our aggregate alumina purchase costs amounted to approximately RMB2,996.0 million, RMB2,382.3 million, RMB3,421.0 million and RMB1,219.8 million (US$186.3 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and the average purchase price we paid was approximately RMB2,495 per ton, RMB1,712 per ton, RMB1,621 per ton and RMB1,795 per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina in China was approximately RMB2,885 per ton, RMB2,000 per ton, RMB2,350 per ton and RMB2,385 (US$364.2) per ton for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

We procured alumina exclusively from Chuangye Group for 2008 and 2009, and we procured alumina exclusively from Gaoxin from January 2010 to March 2011. We recently started to acquire alumina from other third parties. See "– Recent Developments."

Electricity

Electricity is also one of the principal cost components in manufacturing our aluminum products. Electricity accounted for approximately 41.0%, 49.8%, 37.1% and 37.3% of our cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Our electricity cost was approximately RMB3,381.8 million, RMB3,870.9 million, RMB3,483.0 million and RMB1,214.3 million (US$185.4 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and the average purchase price we paid was approximately RMB0.403 per kWh, RMB0.442 per kWh, RMB0.291 per kWh and RMB0.291 (US$0.044) per kWh, respectively, during the same periods. During the three years ended December 31, 2010 and the three months ended March 31, 2011, we purchased electricity from Gaoxin. To further secure a stable electricity supply, our own thermal power station started to supply electricity to us in January 2007. As of March 31, 2011, our power station had an aggregate installed capacity of 1,080 MW and produced electricity at an average cost of RMB0.201 per kWh during the year ended December 31, 2010. The volume of electricity supplied by our own thermal power station accounted for approximately 33.5%, 30.1%, 55.1%

and 44.8% of the volume of our total electricity consumption for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. In addition, we started to sell steam produced by our thermal power station to Gaoxin in 2010. For 2010 and the three months ended March 31, 2011, the revenue from the sale of steam was approximately RMB677.7 million and RMB176.0 million (US$26.9 million), accounting for approximately 4.5% and 3.5% of our revenue of continuing operations during the same periods.

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

	Year ended December 31,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(RMB)	(US$)
Alumina					
Our average purchase price (per ton)	2,495	1,712	1,621[1]	1,795[1]	274
Average spot market price of alumina in China (per ton)	2,885	2,000	2,350	2,385	364
Electricity					
Our average electricity purchase price (per kWh)[2]	0.403[3]	0.442[3]	0.291	0.291	0.044
Benchmark price of Shandong Province[4] (per kWh)	0.311[5]	0.318	0.318	0.318	0.049

(1) Gaoxin was our sole alumina supplier from January 2010 to March 2011. 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, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin. In addition, we entered into an alumina purchase agreement with an independent alumina supplier based in Qingdao, pursuant to which it will provide us with a total volume of 250,000 tons of alumina from April 2011 to December 2012. The first delivery was made in April 2011.

(2) Our Directors have confirmed that the price of electricity supplied to us by Gaoxin was determined through arm's length negotiation between Gaoxin and us.

(3) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power grid by Gaoxin, which have been fully amortized. Our Directors have confirmed that it is a market norm for the customers to bear the construction cost of power grids in the off-the-grid electricity market.

(4) 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.

(5) 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 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 customers include downstream aluminum fabrication product manufacturers, who process our aluminum alloy products into aluminum fabrication products, such as aluminum plates, aluminum wire and wheel hubs, and traders, who in turn resell our aluminum products to downstream aluminum fabrication product manufacturers or other traders. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well known traders. As of March 31, 2011, all of our molten aluminum alloy customers were located within 30 kilometers from us. 73.9% of our revenue for the three months ended March 31, 2011 was derived from the sales of molten aluminum alloy.

Our largest customer accounted for approximately 24.1%, 20.0%, 40.8% and 35.8% of our revenue of continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. This single largest customer is one of the major aluminum product manufacturers in China and we have had a relationship with this customer for approximately five years. This customer has not in the past five years indicated any dissatisfaction with any of our products or services. We believe that we have maintained a good relationship with this customer.

Our five largest customers accounted for approximately 66.1%, 58.0%, 73.7% and 74.0% of our revenue of continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. During the three years ended December 31, 2010 and the three months ended March 31, 2011, 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 March 31, 2011, we had 57 customers. Our relationship histories with our top customers range from one to five years, due to our short operating history.

RECENT DEVELOPMENTS

For the period from January 1, 2010 to March 31, 2011, Gaoxin had been our sole supplier of alumina. We recently entered into an alumina purchase agreement with an independent alumina supplier based in Qingdao, pursuant to which it will provide us with a total volume of 250,000 tons of alumina from April 2011 to December 2012. The first delivery was made in April 2011.

We have recently begun to develop production capacity for high-value-added aluminum foil products at our Binzhou manufacturing base. Our aggregate designed annual production capacity for high-value-added aluminum foil products is expected to reach approximately 30,000 tons by the second half of 2012.

We have also recently begun construction to expand our electricity production capacity, which we expect to increase to approximately 2,400 MW of total installed capacity by the end of 2012.

We have been involved in certain legal proceedings relating to the boiler supply agreement dated June 26, 2007 between Aluminum & Power and Wuhan Boiler. See "– Legal Proceedings". On March 4, 2011, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People's Court relating to this boiler supply agreement, seeking for the termination of this boiler supply agreement, forfeiture of the deposit made by Aluminum & Power to Wuhan Boiler in the amount of RMB10 million, the economic damages of approximately RMB67.4 million allegedly to be suffered by Wuhan Boiler as a result of the alleged breach of this boiler supply agreement by Aluminum & Power, and the relevant litigation expenses. The relevant documents in relation to these legal proceedings initiated by Wuhan Boiler were served to the Company on April 11, 2011. As of the date of this document, neither Binzhou Intermediate People's Court nor Shandong Higher People's Court has delivered any judgment with respect to this case.

We completed our initial public offering and listed our Shares on The Hong Kong Stock Exchange in March 2011, raising net proceeds of approximately HK$6,209.4 million. The Shares are listed under the code "1378." As of July 8, 2011, our market capitalization was approximately HK$42.5 billion (US$5.5 billion), based on the closing price of the Shares.

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

We are the fourth-largest aluminum product manufacturer in China in terms of designed annual aluminum production capacity as of March 31, 2011, according to Antaike. We have three manufacturing bases, our Zouping, Weiqiao and Binzhou manufacturing bases. As of March 31, 2011, these manufacturing bases had an aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products. We are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. As our three manufacturing bases are in close geographic proximity to each other (within 80 km of each other) and are connected by our private power supply grid, we enjoy cost advantages and high operational efficiency through centralized power supply management and centralized procurement of raw materials and electricity.

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 ranging from 320 kA to 400 kA, which is more energy efficient compared to smelting pots with lower working current intensities. According to Antaike, only approximately 32.3% of the total smelting capacity in China operated at a working current intensity of 320 kA or above as of March 31, 2011. We believe that our advanced manufacturing technologies and equipment allow us to produce high-quality aluminum alloy products at competitive production cost.

In addition, we believe that our established market position in terms of scale and technology will enable us to benefit from the PRC government's industry policies which encourage consolidation in the Chinese aluminum industry to create larger, less polluting and more energy-efficient producers. Such policies favor large and technologically-advanced domestic aluminum product manufacturers such as ourselves, giving us a competitive advantage over existing smaller manufacturers. In addition, barriers to entry have increased after 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."

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 largest and fastest growing major aluminum market in the world according to Antaike. According to Antaike, China has been the largest aluminum consumer globally since 2005 and consumed in 2010 approximately 17.5 million tons of primary aluminum, representing 41.4% of world total consumption. Also according to Antaike, China's aluminum consumption grew at a CAGR of 19.2% from 2006 to 2010, 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.

Our existing customers of molten aluminum alloy produce a wide range of value-added aluminum products, including aluminum flat-rolled products and aluminum extrusion products, which are widely used in transportation, automobile, construction, electrical and consumer durables. Our existing customers of aluminum alloy ingot are mainly downstream aluminum fabrication product manufacturers and traders who resell our aluminum products to downstream aluminum fabrication product manufacturers. Our two main aluminum alloy products target customers from a diverse range of industry segments, positioning us to the benefit from the growth of various Chinese industries.

Strategic location of our production facilities within an end-to-end industrial aluminum production cluster

We are strategically headquartered in Zouping County, Shandong Province, one of the major aluminum product manufacturing bases in China, where our principal supplier Gaoxin and a number of downstream aluminum product manufacturers are all in close proximity to each other, forming an end-to-end industrial aluminum production cluster. 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, which in turn results in other synergies.

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. Due to their close proximity to us, our customers avoid transportation costs and costs associated with smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs.

In addition, Shandong Province is 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, together with our local suppliers and customers in the industrial aluminum production cluster, are able to deliver products to customers and receive raw materials from suppliers in a timely and cost-effective way.

The development of this end-to-end industrial aluminum production cluster has resulted in cost competitiveness in the entire value chain, and we believe that our leading market position in the industrial aluminum production cluster has enhanced our overall competitiveness and the sustainability of our cost advantages.

Competitive cost structure and secure supply of electricity

Our large scale of production and close proximity to our suppliers give us strong bargaining power with raw material and electricity suppliers, enabling us to enjoy favorable prices and terms. In 2010, the unit cost of sales of our aluminum products was approximately RMB8,393 per ton while the industry average was approximately RMB13,350 per ton according to Antaike. In addition, our continued focus on the improvement of our manufacturing techniques and optimization of production equipment has enabled us to increase production efficiency. For example, we consumed approximately 1.968 tons, 1.903 tons and 1.861 tons of alumina per unit of aluminum products produced for the years 2008 through 2010, respectively and we consumed approximately 14,934 kWh, 14,317 kWh and 13,453 kWh of electricity per unit of aluminum products produced for the years 2008 through 2010, respectively. We believe the following cost advantages differentiate us from other competitors in the industry:

Large-scale, cost-efficient captive power plant

To secure stable electricity supply, we started to operate our thermal power station in January 2007. Generating electricity with our own power station costs less than purchasing electricity from external suppliers during the three years ended December 31, 2010 and the three months ended March 31, 2011. As of March 31, 2011, our thermal power station had an aggregate installed capacity of 1,080 MW and the volume of electricity supplied by our own thermal power station in 2010 accounted for approximately 55.1% of the volume of our total electricity consumption for the year. We recently commenced the construction to expand our electricity production facilities which we expect to expand our total installed capacity to approximately 2,400 MW by the end of 2012. With this expansion to our total installed electricity generation capacity we expect to be able to generate approximately 65% – 70% of our estimated total electricity consumption requirements for our aluminum production facilities through 2011. In 2010, our thermal power station was able to achieve a high capacity utilization rate with annualized average utilization hours of approximately 7,846 hours. In addition, starting from January 1, 2010, we started to sell the steam generated by our thermal power station to Gaoxin for its alumina production at a price of RMB150 per ton (inclusive of VAT). The high capacity utilization rate of our thermal power station and our selling of steam from it have further reduced our electricity generation costs.

Off-grid direct power supply

Our three manufacturing bases, self-owned thermal power station and electricity supplier Gaoxin, are all in close proximity to each other and are connected by our private power supply grid built by Gaoxin and ourselves. This power supply grid enables us to purchase off-grid electricity from Gaoxin and avoid paying wheeling charges to power grid suppliers. We believe our electricity purchase model is economically more favorable than that of our competitors who purchase on-grid or off-grid electricity that requires them to pay wheeling charges to power grid suppliers.

Alumina supply from adjacently-located supplier

Gaoxin, which has an aggregate alumina designed annual production capacity of 4.0 million tons as of March 31, 2011, is located adjacent to our Company. This close geographic proximity, long term commitment and large volume purchases provide cost savings associated with packaging, transportation and storage, and, we believe, is an important factor that Gaoxin considers when providing us with price discounts.

Cost savings by focusing on selling molten aluminum alloy
Sales of molten aluminum alloy accounted for approximately 56.5%, 61.5%, 84.4% and 76.6% of our revenue from aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, 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. Furthermore, 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 is manufactured, which allows us to keep zero inventory of molten aluminum alloy and enjoy a low transportation cost. By purchasing molten aluminum alloy, our customers avoid transportation costs and the cost of smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs. As such, our customers and we both benefit from higher margins.

Strong balance sheet and excellent working capital management
Our IPO in March 2011 strengthened our capital base and provided us access to diversified funding channels. We had a net cash position, being bank balances and cash minus the sum of bank borrowings due within one year and bank borrowings due after one year, of RMB3,136 million (US$478.9 million) as of March 31, 2011.

In addition, we have generated positive operating cash flows over the past three years, which have helped us to maintain a prudent capital structure and liquidity. Our cash flows from operating activities increased from RMB1,116.7 million in 2008 to RMB4,772.5 million in 2010. During the same period, cash and cash equivalents increased from RMB117.9 million to RMB2,669.6 million, respectively.

Our strong business model has low working capital requirements and a short cash conversion cycle. We have continued to actively manage our accounts receivable and inventory positions to enhance our liquidity and limit our reliance on working capital indebtedness. Since we generally require customers to make advance payment before delivery of goods, we had low trade receivable turnover days of 2, 2, 0.6 and 0.1 days in 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Due to the need to deliver molter aluminum alloy to customers shortly after it is produced, we maintain a very low finished goods inventory and our inventory turnover days were 33, 30, 32 and 34 days in 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Meanwhile, our trade payable turnover days were 38, 33, 28 and 31 days in 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

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 1,064,775 tons and 342,116 tons for 2010 and the three months ended March 31, 2011, respectively.

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 and increase our captive power generation

We intend to continue to increase our share in the aluminum market by expanding our production scale. We are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. We believe the production expansion will further enhance our overall competitiveness in the industry. In addition, we recently commenced the construction to expand our electricity production facilities which we expect to expand our total installed capacity to approximately 2,400 MW by the end of 2012 from 1,080 MW to further optimize our cost structure and to reduce our reliance on the external electricity suppliers. With this expansion to our total installed electricity generation capacity we expect to be able to generate approximately 65% – 70% of our estimated total electricity consumption requirements for our aluminum production facilities through 2011. In addition, we may also acquire reputable aluminum product manufacturers with growth potential to increase our production capacity. As of the date of this document, we had not yet identified any target of such acquisition.

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 our Binzhou manufacturing base when we consider the market condition favorable to us. For instance, we recently started to develop production capacity for high-value-added aluminum foil products. Our aggregate designed annual production capacity for high-value-added aluminum foil products is expected to reach approximately 30,000 tons by the second half of 2012. However, we do not have a final plan of the timing and other 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 August 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 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 products: 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 Al99.70A 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 2008 and 2009 and approximately 95.5% and 96.5% for 2010 and the three months ended March 31, 2011 of our revenue derived from our continuing operations, respectively. The following table sets forth the sales volume, revenue, average selling price of, and revenue derived from, each type of our products for the periods indicated:

	Year ended December 31,											
	2008				2009				2010			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy	345,395	4,953.3	14,341	56.5%	445,614	5,334.5	11,971	61.5%	903,099	12,204.1	13,514	80.7%
Aluminum alloy ingot	264,662	3,818.9	14,429	43.5%	278,270	3,243.7	11,657	37.5%	157,240	2,183.0	13,883	14.4%
Aluminum busbar	–	–	–	–	7,159	90.2	12,609	1.0%	4,436	66.8	15,058	0.4%
Subtotal	610,057	8,772.2	14,379	100.0%	731,043	8,668.4	11,858	100.0%	1,064,775	14,453.9	13,575	95.5%
Steam	–	–	–	–	–	–	–	–	5,105,024	677.7	133	4.5%
Total		8,772.2		100.0%		8,668.4		100.0%		15,131.6		100.0%

	Three months ended March 31,							
	2010				2011			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy	164,876	2,312.2	14,024	63.7%	261,455	3,742.8	14,315	73.9%
Aluminum alloy ingot	74,111	1,060.6	14,311	29.2%	80,661	1,146.2	14,210	22.6%
Aluminum busbar	4,436	66.8	15,058	1.9%	–	–	–	–
Subtotal	243,423	3,439.6	14,130	94.8%	342,116	4,889.0	14,290	96.5%
Steam	1,427,718	189.5	133	5.2%	1,326,290	176.0	133	3.5%
Total		3,629.1		100.0%		5,065.0		100.0%

Molten aluminum alloy

Molten aluminum alloy is our main product, and it accounted for approximately 56.5%, 61.5%, 84.4% and 76.6% of our revenue generated from sales of aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, 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 March 31, 2011 we are one of two molten aluminum alloy suppliers in Zouping County. As the largest aluminum alloy supplier in Zouping County, we accounted for approximately 83.7% of the annual production capacity of primary aluminum in Zouping County as of March 31, 2011, 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 a substitute for molten aluminum alloy. However, our Directors believe that our customers in Zouping County generally prefer using molten aluminum alloy due to its various benefits as compared to aluminum alloy ingots.

Aluminum alloy ingots

Sales of aluminum alloy ingots accounted for approximately 43.5%, 37.5%, 15.1% and 23.4% of our revenue generated from aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Molten aluminum alloy is processed into aluminum alloy ingots through molding, casting and cooling. Our aluminum alloy ingots are produced by using self-manufactured molten aluminum alloy.

Aluminum alloy ingots are widely used as raw materials in the production of car wheels, industrial, civil construction, and thermal conductivity materials due to their outstanding physical, mechanical and thermoplastic features, as well as light-weight, corrosion resistance, easy processing and excellent performance. Our aluminum alloy ingots are primarily sold to customers in regions other than Zouping County, such as in other counties in Shandong Province, Beijing, Tianjin, Hebei Province, Jiangsu Province, Guangdong Province, Liaoning Province and Zhejiang Province. Among these customers, there were 17 traders and 28 downstream aluminum fabrication product manufacturers.

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%, 0.46% and nil of our revenue generated from our aluminum products for 2009, 2010 and the three months ended March 31, 2011, respectively. All of our aluminum busbars were sold to Chuangye Group for 2009, which it used as parts in the smelting pots of its production line. We acquired that production line from Chuangye Group in 2010.

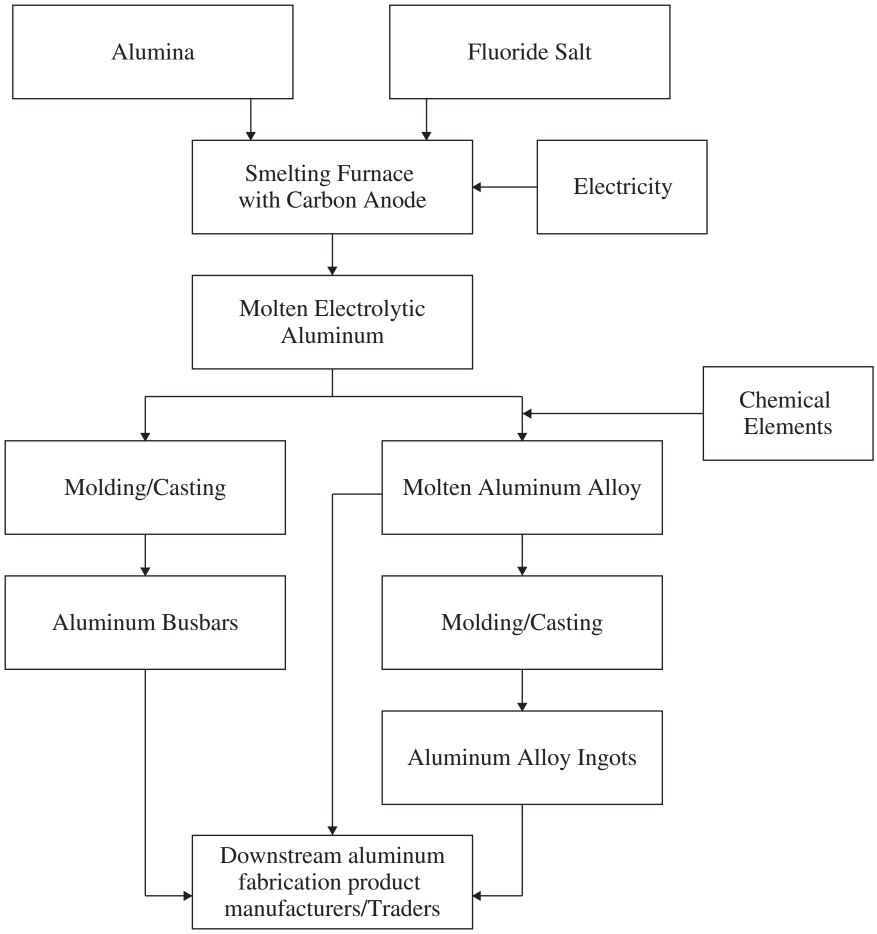
We sold some aluminum busbars to an independent third party customer in Zouping County in 2010. Other than the sales to this customer and Chuangye Group, we have not sold aluminum busbars to any other customer. All of the other aluminum busbars we have manufactured were used for the construction of the production lines in our Binzhou manufacturing base. We do not intend to expand our production of aluminum busbars in the future. Instead, we intend to produce aluminum busbars only for our own use.

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 established 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 between 950˚C and 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:



OUR PRODUCTION FACILITIES

We have obtained approvals from relevant governmental authorities for total annual designed production capacities of approximately 156,000 tons of electrolytic aluminum products and approximately 1,620,000 tons of aluminum fabrication products. Our manufacturing bases had aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products as of March 31, 2011. In addition, we are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012.

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", which prohibits the construction of new electrolytic aluminum manufacturing facilities and the expansion of existing facilities through Financial Services promulgated by the PRC government on December 22, 2009 came into effect. See "Industry Overview – Competition Landscape" and "Regulation Overview." 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. However, there can be no assurance that the PRC government will not continue to prohibit the construction of new electrolytic manufacturing facilities in the future, limiting any additional expansion of our facilities. See "Risk Factors – Risks Relating to Our Industry – Future changes in laws, regulations or enforcement policies in China could adversely affect our business." In addition, on August 23, 2006, Binzhou NDRC confirmed that our aggregate annual production capacity of 156,000 tons of electrolytic aluminum had passed the 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. Our Zouping manufacturing base is located in the Zouping Development District, Zouping County, and commenced its operations in July 2007. Our Binzhou manufacturing base is located in Binzhou Economic Development Zone, and commenced its trial operation in October 2010. As of March 31, 2011, our three manufacturing bases had an aggregate designed annual production capacity of approximately 1,376,000 tons of aluminum products. All of our manufacturing facilities are located in Zouping County or Binzhou Economic Development Zone, in China's 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 400 kA and produce molten aluminum alloy and aluminum alloy ingots.

We have acquired aluminum fabrication facilities for low value-added rough machining aluminum fabrication products, such as aluminum alloy sheets and bars, for our 1,220,000-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, at 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, 2008, 2009 and 2010 and the three months ended March 31, 2011 and our production volumes and utilization rates for the same periods:

	For the year ended December 31,			For the three months ended March 31,
	2008	**2009**	**2010**	**2011**
Weighted average designed annual production capacity (tons)[1]	601,085	738,973	970,496	1,231,664
Production volume (tons)	616,972	726,192	1,076,196	343,938
Utilization rate[2]	102.6%	98.3%	110.9%	111.7%[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 for each of the three years ended December 31, 2010 and by three for the three months ended March 31, 2011.

(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.

We are in the process of expanding our manufacturing bases to increase our production capacity. Through this expansion, our aggregate designed annual production capacity is expected to reach approximately 1,776,000 tons by the end of 2011 or early 2012. Our total budgeted capital expenditure for the expansion of our manufacturing bases to increase our aluminum products production capacity is approximately RMB6.6 billion. As of March 31, 2011, the carrying amount of the property, plant and equipment for the expansion of our manufacturing bases was approximately RMB919.5 million (US$140.4 million), and the relevant capital commitment was approximately RMB4,273.0 million (US$652.5 million). We expect to fund the capital expenditures for the expansion of our manufacturing bases by cash generated from our operating activities, the proceeds from our Listing and fund raising activities. We will arrange for our equipment suppliers to provide us with necessary technological support and training.

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.

PROCUREMENT

We procure raw materials and energy, including electricity and coal, from external suppliers. Our five largest suppliers together accounted for approximately 60.9%, 73.3%, 69.3% and 70.4%, respectively, of our total procurement for 2008, 2009, 2010 and the three months ended March 31, 2011. Chuangye Group was our largest supplier for 2008 and 2009, accounting for approximately 46.1% and 46.3% of our total procurement during the same periods. We purchased alumina and electricity from Gaoxin exclusively for 2010 and the three months ended March 31, 2011. Gaoxin was our largest supplier for 2010 and the three months ended March 31, 2011, accounting for approximately 58.4% and 61.5%, respectively of our total procurement during that periods.

Gaoxin is a joint stock company incorporated in Zouping County, Shandong Province under the laws of the PRC on January 24, 2007, which is 98.0% owned by Shandong Zouping Yunda Investment Management Company Limited and 2.0% owned by Shandong Zouping Kaida Real Estate Company Limited. The shareholders of Shandong Zouping 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 Zouping 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, none of its senior management member or its sole director holds any position in the PRC government.

As advised by Gaoxin, we purchased approximately 65.6% of total volume of alumina sold by Gaoxin for the three months ended March 31, 2011, and we were Gaoxin's largest customer for the same period. As advised by Gaoxin, it had more than 150 alumina customers as of March 31, 2011. As advised by Gaoxin, after the acquisition of the alumina business, Gaoxin's alumina business was profit making for 2010. In addition, as advised by Gaoxin, it had an aggregate designed annual production capacity of approximately 4,000,000 tons of alumina and more than 8,300 employees as of March 31, 2011. As advised by Gaoxin, it was profit making for both 2009 and 2010 and its net assets value as of March 31, 2011 was approximately RMB6.3 billion (US$962.1 million). Gaoxin 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'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'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, it currently has six bauxite suppliers in Indonesia and India. As advised by Gaoxin, 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 for approximately RMB3.1 billion based on a valuation of the alumina production facilities on December 25, 2009 by Shandong Jianxin Asset Appraisal Company Limited, an independent third party valuer. The purchase price was fully paid by Gaoxin in instalments in cash by April 2010.

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

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.

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,									Three months ended March 31,					
	2008			2009			2010			2010			2011		
	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	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount
Alumina	2,995,979	1,200,643	69.1%	2,382,343	1,391,506	73.4%	3,421,009	2,110,817	64.7%	775,335	477,209	66.6%	1,219,755	679,525	62.6%
Carbon anodes	1,232,804	349,487	28.4%	769,039	372,361	23.7%	1,581,165	499,980	29.9%	270,417	99,020	23.2%	597,147	179,429	30.6%
Others[(1)]	110,063	–	2.5%	92,801	–	2.9%	284,394	–	5.4%	118,539	–	10.2%	133,217	–	6.8%
Total	4,338,846	–	100.0%	3,244,183	–	100.0%	5,286,568	–	100.0%	1,164,291	–	100.0%	1,950,119	–	100.0%

Note:

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

Procurement of alumina

Alumina is one of the principal components of our cost of goods sold, accounting for approximately 69.1%, 73.4%, 64.7% and 62.5% of our total purchase of raw materials for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. For 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. All of our suppliers are located in China. Gaoxin became our largest supplier and sole alumina supplier in 2010 and the three months ended March 31, 2011. We recently started to acquire alumina from another supplier. Our aggregate alumina purchase costs amounted to approximately RMB2,996.0 million, RMB2,382.3 million, RMB3,421.0 million and RMB1,219.8 million (US$186.3 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, and the average purchase price that we paid was approximately RMB2,495 per ton, RMB1,712 per ton, RMB1,621 per ton and RMB1,795 (US$274.1) per ton, respectively, during the same periods. According to Antaike, the average spot price of alumina in China was approximately RMB2,885 per ton, RMB2,000 per ton, RMB2,350 per ton and RMB2,385 (US$364.2) per ton for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

Alumina procurement from Chuangye Group

We procured alumina exclusively from Chuangye Group for 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 RMB2,996.0 million and RMB2,382.3 million for 2008 and 2009 respectively, and the average purchase price was approximately 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 RMB2,885 per ton and RMB2,000 per ton for 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 2008 and 2009. The other customers of Chuangye Group's alumina products were primary aluminum and aluminum alloy manufacturers in more than 20 provinces in China. See "– Discontinued Operations."

Alumina procurement from Gaoxin

In December 2009, Chuangye Group sold its alumina production facilities to Gaoxin. As confirmed by Chuangye Group, it sold its alumina production facilities to focus on its textile business, and Gaoxin had financial capability to purchase the alumina production facilities at that time. As advised by Gaoxin, it acquired the alumina production facilities with the intent to leverage its own electricity generating capacity. We entered into an alumina supply agreement with Gaoxin 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 negotiation. Pursuant to the alumina supply agreement, we and Gaoxin agreed to determine the base price of alumina provided to our Group with reference to the sales price of alumina supplied by Gaoxin to other independent third parties in early January of the relevant year. In addition, Gaoxin agreed to provide us with price discounts, and the price of alumina provided to us by Gaoxin is equal to the price of alumina offered to other third parties by Gaoxin 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'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; and
- that we maintain a deposit of RMB400 million, which provides Gaoxin with extra liquidity.

Such price discounts are determined through negotiation between Gaoxin 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. 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 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. Moreover, if there is still remaining deposit after the offset of the amount we owe Gaoxin, Gaoxin 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 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 to our Group complies with applicable PRC laws and regulations as supply of alumina is within Gaoxin's business scope. As at March 31, 2011, Zong Heng Law Firm are not aware of any proposed material change in the PRC laws and regulations governing alumina production.

For 2010 and the three months ended March 31, 2011, we purchased alumina with an aggregate amount of approximately RMB3,421.0 million and RMB1,219.8 million (US$186.3 million) from Gaoxin with an average purchase price of approximately RMB1,621 per ton and RMB1,795 per ton, respectively. According to Antaike, the average spot price of alumina was approximately RMB2,350 per ton and RMB2,385 (US$364.2) per ton during the same periods. In addition, Gaoxin has also provided alumina to our Binzhou manufacturing base since its trial production in late September 2010. We usually make full payments before we pick up alumina from Gaoxin. We usually make prepayments in several instalments to Gaoxin every month and Gaoxin 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 2010 and the three months ended March 31, 2011, we were Gaoxin's largest customer for its alumina products. Our Directors have confirmed that, during the three years ended December 31, 2010 and the three months ended March 31, 2011, we have not experienced any interruption of the supply of alumina from the suppliers.

Our purchase of alumina as a percentage of total purchase of raw materials for 2008, 2009, 2010 and the three months ended March 31, 2011 was approximately 69.1%, 73.4% and 64.7% and 62.5%, respectively, and was approximately 34.2%, 27.5%, 23.7% and 24.9% as a percentage of total revenue of aluminum products during the same periods. Purchase of alumina accounted for 36.4%, 30.7%, 36.4% and 37.5% of the cost of sales of our aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. However, as the pricing mechanisms of alumina provided by Chuangye Group and Gaoxin 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.

The following table sets forth our average purchase price of alumina from Chuangye Group for 2008 and 2009, and from Gaoxin for 2010 and the three months ended March 31, 2011, and the average spot market price of alumina in China, according to Antaike, for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(RMB)	(US$)
Chuangye Group	2,495	1,712	–	–	–
Gaoxin	–	–	1,621	1,795	274
Average spot market price of alumina in China	2,885	2,000	2,350	2,385	364

We procured alumina exclusively from Chuangye Group for 2008 and 2009, and we procured alumina exclusively from Gaoxin from January 2010 to March 2011. We recently entered into an alumina purchase agreement with an independent alumina supplier based in Qingdao, pursuant to which it will provide us with a total volume of 250,000 tons of alumina from April 2011 to December 2012. The first delivery was made in April 2011. Our purchase price of alumina provided by Chuangye Group decreased from 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 decreased from 2008 to 2009, according to Antaike. Although, according to Antaike, bauxite prices rebounded slightly since 2010, such prices still remained relatively low. As a result of and based on our negotiation with Gaoxin, our purchase price of alumina provided by Gaoxin further decreased to RMB1,621 per ton and RMB1,795 (US$274.1) per ton for 2010 and the three months ended March 31, 2011. Due to our arrangements with Chuangye Group and Gaoxin described above, our average purchase prices of alumina from Chuangye Group and Gaoxin were lower than the average spot market prices of alumina in China during the three years ended December 31, 2010 and the three months ended March 31, 2011. If we had purchased alumina at the average spot market prices in China during the three years ended December 31, 2010 and the three months ended March 31, 2011, and assuming all other factors, including change in inventories, remain unchanged, our total purchase costs of alumina would have increased by approximately RMB467.9 million, RMB400.7 million, RMB1,539.4 million and RMB400.9 million (US$61.2 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

Our Directors believe that we are able to source alumina from alternative suppliers domestically or overseas in a timely manner in case Gaoxin 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) may be significantly higher than that of the alumina supplied to us by Gaoxin. 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, our Directors believe the price discounts provided by these suppliers would be smaller than that provided by Gaoxin. 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 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.

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 RMB166.8 million, RMB79.7 million, RMB112.8 million and RMB148.2 million (US$20.8 million) as of December 31, 2008, 2009 and 2010 and March 31, 2011, 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 Chuangye Aluminum Technology, which is wholly owned by Chuangye Group. The carbon anodes we purchased from Chuangye Aluminum Technology amounted to approximately RMB201.6 million, RMB162.8 million, RMB309.9 million and RMB108.7 million (US$16.6 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, 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.

ELECTRICITY SUPPLY

Electricity is one of the principal cost components in our production. Smelting aluminum requires a substantial and continuous supply of electricity. Our electricity cost was approximately RMB3,381.8 million, RMB3,870.9 million, RMB3,483.0 million and RMB1,214.3 million (US$185.4 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, accounting for approximately 41.0%, 49.8%, 37.1% and 37.3% 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 three years ended December 31, 2010 and the three months ended March 31, 2011. We are also planning to construct a second thermal power station. The volume of electricity supplied by our own thermal power station accounted for approximately 33.5%, 30.1%, 55.1% and 44.8% of the volume of our total electricity consumption for 2008, 2009, 2010 and the three months ended March 31, 2011, 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,			Three months ended March 31,	
	2008	2009	2010	2010	2011
	(kWh)	(kWh)	(kWh)	(kWh)	(kWh)
External	5,872,027,939	7,263,594,077	6,458,281,102	1,395,036,126	2,610,977,820
Internal	2,962,361,425	3,134,830,375	7,935,136,537	1,949,103,591	2,119,207,797
Total	8,834,389,364	10,398,424,452	14,393,417,639	3,344,139,717	4,730,185,617

Electricity suppliers

During the three years ended December 31, 2010 and the three months ended March 31, 2011, we purchased electricity from two local electricity suppliers, Chuangye Group and Gaoxin. Gaoxin 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,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB) (in millions)	(RMB)	(US$)
Chuangye Group	1,681.0	1,280.8	–	–	–
Gaoxin	688.2	1,929.8	1,875.9	758.7	115.9
Total	2,369.2	3,210.6	1,875.9	758.7	115.9

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 RMB1,681.0 million and RMB1,280.8 million for 2008 and 2009, respectively.

We entered into an electricity supply agreement with Gaoxin in June 2008, and Gaoxin 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 March 31, 2011, Gaoxin had an installed capacity of 1,880 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 built a power grid 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 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 grids in the off-the-grid electricity market.

We purchased electricity from Gaoxin for an aggregate amount of approximately RMB688.2 million, RMB1,929.8 million, RMB1,875.9 million and RMB758.7 million (US$115.9 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, accounting for approximately 20.4%, 49.9%, 53.9% and 62.5% of our total electricity cost for the same periods, respectively. We usually make full payment before we receive electricity and alumina from Gaoxin. We make prepayments in several instalments to Gaoxin every month and Gaoxin 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 and the purchase volume of alumina during the period covered by such prepayment. During the three years ended December 31, 2010 and the three months ended March 31, 2011, we sometimes made such prepayments to Gaoxin by endorsed bank bills. On June 20, 2008, we entered into an agreement with Gaoxin, pursuant to which we agreed to be responsible for the finance costs incurred by Gaoxin in relation to discounting such endorsed bank bills. This agreement expired on December 31, 2009. Gaoxin 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 to our Group complies with the applicable PRC laws and regulations as Gaoxin is permitted by relevant PRC governmental authorities to generate and supply electricity. As advised by Gaoxin, it had more than 110 electricity customers as of March 31, 2011, and we were its largest electricity customer for the three months ended March 31, 2011.

Gaoxin is in the process of expanding its installed capacity. As a result, our Directors believe that Gaoxin is able to provide us with a stable, sufficient and low-cost supply of electricity in the long run. Our Directors have confirmed that, during the three years ended December 31, 2010 and the three months ended March 31, 2011, we did not experience any interruption in the supply of electricity from our suppliers.

However, we do not have any existing alternative electricity supply arrangement (other than our own captive electricity generation). For the three months ended March 31, 2011, our own power station was able to produce approximately 44.8% 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. 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. 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.

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,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB/kWh)	(RMB/kWh)	(RMB/kWh)	(RMB/kWh)	(US$/kWh)
Average electricity purchase price ..	0.403(1)	0.442(1)	0.291(2)	0.291(2)	0.044
Benchmark price(3)	0.311(4)	0.318	0.318	0.318	0.049

(1) The average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power grid by Gaoxin.

(2) Our average purchase price of electricity for 2010 and the three months ended March 31, 2011 was lower than that of 2008 and 2009 and which was primarily due to the fact that the construction cost for the power grid connecting our facilities to Gaoxin's generators was fully amortized by the end of 2009, and that the price of the electricity purchased by us from Gaoxin for 2010 and the three months ended March 31, 2011 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 was determined through arm's length negotiation between Gaoxin and us. Assuming that we had purchased electricity at the benchmark price for the three months ended March 31, 2011 and that all other factors, including change in inventories, remain unchanged, our electricity cost would have increased by RMB70.5 million and our net profit of continuing operations would have been decreased to RMB1,268.3 million.

Our thermal power stations

Power generation

Our existing 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 since October 2010. As of March 31, 2011, our thermal power station had an installed generation capacity of 1,080 MW. We are also in the process of further expanding our thermal power station. We are also planning to expand our electricity generation capacity to 2,400 MW by the end of 2012 from 1,080 MW to further optimize our cost structure and to reduce our reliance on the external electricity suppliers.

Theoretically, the maximum utilization hours of a power plant is 8,760, the number of hours in a 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 5,379 hours, 4,009 hours and 7,846 hours for 2008, 2009 and 2010, respectively, and the utilization rate was approximately 61.4%, 45.8% and 89.6% during the same periods. For the three months ended March 31, 2011, the annualized average utilization hours of our thermal power station was approximately 7,849 hours, representing an annualized utilization rate of approximately 89.6% during such period.

The cost of electricity generated in-house was approximately RMB1,085.4 million, RMB917.4 million, RMB1,591.3 million and RMB455.8 million (US$69.6 million) for 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. The electricity cost per kWh was approximately RMB0.37, RMB0.29, RMB0.20 and RMB0.22 (US$0.034) for 2008, 2009 and 2010 and the three months ended March 31, 2011, 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 2008 and 2009 we provided approximately 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 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, 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 because (i) Gaoxin 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 2010 and the three months ended March 31, 2011, we supplied approximately 5,105,024 tons and 1,326,290 tons of steam to Gaoxin for approximately RMB677.7 million and RMB176.0 million (US$26.9 million), accounting for approximately 4.5% and 3.5%, respectively, of our revenue of continuing operations during the same periods.

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 near Shandong Province. 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, generally we have been able to purchase sufficient coal in the open market to meet our requirements. However, in 2009, we purchased coal with a total price of approximately RMB442.1 million from Chuangye Group, 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. We purchased coal with a total amount of approximately RMB899.0 million, RMB869.1 million, RMB1,943.8 million and RMB448.8 million (US$68.5 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively, including the coal used in the generation of electricity and steam. The purchase cost of coal accounted for approximately 10.9%, 11.2%, 20.7% and 13.8% of our total cost of sales for 2008, 2009, 2010 and the three months ended March 31, 2011, 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,			Three months ended March 31,	
	2008	2009	2010	2011	2011
	(RMB/ton)	(RMB/ton)	(RMB/ton)	(RMB/ton)	(US$/ton)
Average coal consumption cost(1) ...	661(2)	500	587	627	95.8
Qinhuangdao price of coal with an average calorific value of 5,000 kilocalories(3)	543	445	553	582	88.9

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 of approximately 5,404 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 March 31, 2011, 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.

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 three years ended December 31, 2010 and the three months ended March 31, 2011, 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 primarily 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 prices 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 three years ended December 31, 2010 and the three months ended March 31, 2011. 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 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 RMB34.6 million, RMB44.4 million, RMB3.7 million and RMB3.8 million (US$0.6 million) as of December 31, 2008, 2009, 2010 and March 31, 2011, respectively, accounting for approximately 0.4%, 0.5%, 0.02% and 0.1% of the total sales of our continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011.

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 66.1%, 58.0%, 73.7% and 74.0% of our revenue of continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well known traders. Our largest customer accounted for approximately 24.1%, 20.0%, 40.8% and 35.8% of our revenue of continuing operations for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. This single largest customer is one of the major aluminum product manufacturers in China and we have had a relationship with this customer for approximately five years. This customer has not in the past five years indicated any dissatisfaction with any of our products or services. We believe that we have maintained a good relationship with this customer. Our relationship histories with our top customers range from one to five years, due to our short operating history. Sales volume of our aluminum products was approximately 610,057 tons, 731,043 tons, 1,064,775 tons and 342,116 tons for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

During the three years ended December 31, 2010 and the three months ended March 31, 2011, our customers included downstream manufacturers, who processed our aluminum alloy products into aluminum fabrication products, such as aluminum plates, aluminum wire and wheel hubs, 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 three years ended December 31, 2010 and the three months ended March 31, 2011, our five largest customers were located in Zouping County and other areas in Shandong Province, Beijing, Guangdong Province and Jiangsu Province. During the three years ended December 31, 2010 and the three months ended March 31, 2011, 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 March 31, 2011, we had 57 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 56.5%, 61.5%, 84.4% and 76.6% of our revenue of aluminum products for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. As of March 31, 2011, we had 12 molten aluminum alloy customers and 45 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 17 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.

INVENTORY CONTROL

We had inventories, exclusive of those held for sale, of approximately RMB744.0 million, RMB548.4 million, RMB1,122.1 million and RMB1,359.2 million (US$207.6 million) as of December 31, 2008, 2009 and 2010 and March 31, 2011, 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 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 33, 30, 32 and 34 for 2008, 2009, 2010 and the three months ended March 31, 2011, 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		
	Si	Fe	Cu	Mn	Mg	Cr	Ni	Zn	Zr	Individual	Aggregate	Al
6063	0.2-0.6	0.35	0.10	0.10	0.45-0.9	0.10	–	0.10	–	0.05	0.15	Remaining

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

	Chemical components											
										Other		
	Si	Fe	Cu	Mn	Mg	Be	Zn	Sn	Pb	Individual	Aggregate	Al
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	0.15	Remaining

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 Al99.70A, 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 March 31, 2011, we had 410 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 three years ended December 31, 2010 and the three months ended March 31, 2011.

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 August 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.

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, 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 three years ended December 31, 2010 and the three months ended March 31, 2011, 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. 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 March 31, 2011, 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 March 31, 2011, we owned the domain names **www.hongqiaochina.com**, **www.hongqiao-china.com**, **www.hongqiaogroup.cn** and **www.hongqiaoxc.com**. As of March 31, 2011, we also had seven registered trademarks in Hong Kong, two registered trademarks in the PRC and one trademark application 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 March 31, 2011.

COMPETITION

The aluminum industry is highly competitive in China. As of March 31, 2011, according to Antaike, there were 90 primary aluminum manufacturers in China, and the average designed annual aluminum production capacity of these manufacturers was 250,000 tons of primary aluminum products, including pure aluminum products and aluminum alloy products. As of March 31, 2011, only 12 primary aluminum manufacturers in China had a designed annual primary aluminum production capacity of 500,000 tons or more, which accounted for approximately 43.7% 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 83.7% of the annual production capacity of primary aluminum in Zouping County as of March 31, 2011, 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.

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 polices 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 March 31, 2011, 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 protection personnel have an average of more than four years of experience in environmental protection. In addition to these environmental protection personnel, as of March 31, 2011, we also had more than 760 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 RMB4.8 million, RMB4.8 million, RMB2.0 million and RMB0.2 million (US$0.03 million) for 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

Our PRC legal advisors, Zong Heng Law Firm, have advised us that we have received all necessary approvals and have made all necessary filings with respect to both the aluminum production lines we are currently operating and the operation of our power station with the relevant environmental protection authorities and that they passed the necessary environmental protection inspections upon the completion of their 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.

Environmental Protection of Chuangye Group's Alumina Production Business

Chuangye Group was our exclusive alumina supplier for 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.

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's Alumina Production Business from 2010 onwards

Chuangye Group sold its alumina production facilities to Gaoxin in December 2009. Gaoxin became our exclusive alumina supplier from 2010 until March 2011.

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 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 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 has never caused any environmental issue, Gaoxin 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 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.

In addition, any failure by Gaoxin 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 to potential significant monetary damages, fines or administrative, civil or criminal sanctions, which could disrupt, limit or even result in the suspension of Gaoxin's alumina production activities. As a result, our business, financial condition and results of operations will be materially and substantially affected. In addition, if Gaoxin experiences any environmental protection issues, including those with respect to red mud 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 was 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 by Chuangye Group.

The Environmental Inspection Station of Zouping County has also conducted environmental inspections on the production activities of Gaoxin. 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.

The table below sets forth the level of pollutants discharged by Gaoxin 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
	(mg/m^3 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.

We are committed to providing a safe and healthy working environment for our employees and have received GB/T 28001:2001 certification for our occupational health and safety management system in January 2011. GB/T 28001:2001 is a voluntary national PRC standard for occupational health and safety management systems issued by the Standardization Administration of the PRC. 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 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 March 31, 2011, 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 the 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.

Chuangye Aluminum Technology's Accident

Chuangye 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 Chuangye Aluminum Technology;

(ii) the Binzhou Work Safety Bureau confirmed that Aluminum & Power was not involved in the design of the aluminum production facilities of Chuangye Aluminum Technology and was not responsible for this accident;

(iii) the Binzhou Work Safety Bureau fined Chuangye Aluminum Technology in the amount of RMB2.0 million and banned Chuangye Aluminum Technology from carrying out any alumina or aluminum businesses;

(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 Chuangye Aluminum Technology at that time; and

(v) the deceased, the injured and their family members were compensated by Chuangye Aluminum Technology in a total amount of approximately RMB9.0 million and all 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 Chuangye Aluminum Technology, Mr. Zhang confirmed that he was not involved in the daily operation of Chuangye 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 Chuangye Aluminum Technology. Our Company confirms that Mr. Zhang was a director of Chuangye Aluminum Technology at the time of the accident and apart from Mr. Zhang, no other Director was the director or senior management of Chuangye Aluminum Technology during the three years ended December 31, 2010 and the three months ended March 31, 2011.

PROPERTIES

As of December 31, 2010, 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.

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 and inventories in China amounted to approximately RMB9,250 million (US$1,412.6 million) as of March 31, 2011. 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 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 March 31, 2011, we employed 14,031 employees. The table below sets forth the breakdown of our employees by functions as of March 31, 2011.

Function	Number of employees
Aluminum production	11,083
Power station	1,597
Supply	174
Sales, marketing and delivery	207
Quality control	410
General management	560
Total	14,031

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.

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 three years ended December 31, 2010 and the three months ended March 31, 2011.

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, RMB105,880, RMB139,000 and RMB38,000 (US$5,803) in the year 2008, 2009, 2010 and the three months ended March 31, 2011, 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.

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踪檢查報告) 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, 2008, 2009 and 2010 and March 31, 2011, we had approximately 2,916, 3,012, 9,068 and 9,452 employees with rural residence, respectively, accounting for approximately 40.8%, 40.8%, 65.3% and 67.4% of our total employees as of December 31, 2008, 2009 and 2010 and March 31, 2011, 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.

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. As confirmed in 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, such 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 three years ended December 31, 2010 and the three months ended March 31, 2011, we had discontinued operations. The profit from our discontinued operations was approximately RMB145.3 million, RMB31.5 million and nil for 2008, 2010 and the three months ended March 31, 2011, 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 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.

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 2008 and 2009. Chuangye Group is a company in which Mr. Zhang directly and indirectly held an approximately 33.72% equity interest as of March 31, 2011. 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) 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 RMB200 and RMB100 per ton for the two years ended December 31, 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,		
	2008	**2009**	**2010**
Management fee rate (RMB per ton)	200	100	–
Total management fee (RMB in thousand)	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 2008 and 2009, we provided approximately 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

(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 RMB145.6 million for 2008 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. As confirmed by Chuangye Group, it sold its alumina production facilities to focus on its textile business, and Gaoxin had financial capability to purchase the alumina production facilities at that time. As advised by Gaoxin, 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, neither Chuangye Group nor our Group has acquired any alumina production facilities nor has been involved in alumina production or red mud production.

Pursuant to the alumina supply agreement between Gaoxin and our Group, Gaoxin 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. 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.

Our Directors have confirmed that for 2008 and 2009, when the alumina production business was run by Chuangye Group, the overlap 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. 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 RMB0.3 million and RMB0.9 million for 2008 and 2009 respectively. We recorded a gain of approximately RMB24.9 million and nil for 2010 and the three months ended March 31, 2011, respectively, 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. 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 three years ended December 31, 2010 and the three months ended March 31, 2011, 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 2010 and nil for the three months ended March 31, 2011 due to the gain in the disposal of the caustic soda manufacturing business.

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. 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.

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 March 31, 2011, we were involved in the following material litigations.

1. On February 6, 2007, Aluminum & Power, one of our subsidiaries, 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 March 31, 2011, Wuhan Boiler had delivered only one set of boilers. 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 delivered any judgment with respect to this case.

2. On June 26, 2007, Aluminum & Power, one of our subsidiaries, 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 March 31, 2011, Wuhan Boiler had not delivered any boilers. 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. On March 4, 2011, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People's Court relating to this boiler supply agreement, seeking for the termination of this boiler supply agreement, forfeiture of the deposit made by Aluminum & Power to Wuhan Boiler in the amount of RMB10 million, the economic damages of approximately RMB67.4 million allegedly to be suffered by Wuhan Boiler as a result of the alleged breach of this boiler supply agreement by Aluminum & Power and the relevant litigation expenses. The relevant documents in relation to these legal proceedings initiated by Wuhan Boiler were served to the Company on April 11, 2011. As the date of this document, neither Binzhou Intermediate People's Court nor Shandong Higher People's Court has delivered any judgment with respect to this case.

3. On July 11, 2003, Aluminum & Power, one of our subsidiaries, 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 several times with respect to its total price, delivery schedule and payment terms 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 the payment of the purchase price and the refund of a quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, overdue payment charges of approximately RMB57.5 million and 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, one of our subsidiaries, 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 acquired the relevant alumina production facilities from Chuangye Group in December 2009. On March 23, 2010, Wuhan Boiler, Gaoxin 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. In addition, pursuant to this novated agreement, if Gaoxin 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 and Aluminum & Power, one of our subsidiaries, in Shandong Higher People's Court, seeking for overdue payment charges of approximately RMB51.5 million in relation to the February 2006 Boiler Supply Agreement and relevant litigation expenses, which Wuhan Boiler alleges Gaoxin 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 and Aluminum & Power at Shandong Higher People's Court, seeking for the termination of the May 2006 Boiler Supply Agreement, the payment of the purchase price of RMB32.7 million, damages of approximately RMB13.0 million, overdue payment charges of approximately RMB96.8 million and the relevant litigation expenses, which Wuhan Boiler alleges Gaoxin 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 date of this document, 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.

RELATED PARTY TRANSACTIONS

The following discussion describes certain significant related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth the name and relationship of our related parties with which we have significant related party transactions during the three years ended December 31, 2010 and the three months ended March 31, 2011.

Name	Relationship	Transaction Period(s)
Chuangye Group	(1)	the three years ended December 31, 2010
Chuangye Aluminum Technology	Controlled by Chuangye Group	the three years ended December 31, 2010 and the three months ended March 31, 2011
Shandong Weilian Printing & Dyeing Co. Ltd.	Controlled by Chuangye Group	the year ended December 31, 2008
Binzhou Weiqiao Salt Industrial Development Co. Ltd.	Controlled by Chuangye Group	the year ended December 31, 2009
Zouping Weiqiao Recyclable Resources Utilization Co., Ltd.	Controlled by Chuangye Group	the year ended December 31, 2010
Shandong Weiqiao Costume Co., Ltd.	Controlled by Chuangye Group	the two years ended December 31, 2009
Shandong Weiqiao Tekuanfu Co., Ltd.	Controlled by Chuangye Group	the two years ended December 31, 2009
Marine Chemical	(2)	the year ended December 31, 2010
Profit Long Investment	Controlled by Mr. Zhang	the year ended December 31, 2010
Ms. Zheng	Spouse of Mr. Zhang	the year ended December 31, 2010

(1) Mr. Zhang, the director and the controlling shareholder of the ultimate holding company of the Company, has a significant noncontrolling beneficial interest in Chuangye Group during most of the three years ended December 31, 2010 and the three months ended March 31, 2011.

(2) Marine Chemical was controlled by Huibin Dyeing since January 1, 2010.

The table below sets forth our significant related party transactions for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2008	2009	2010	2011
	(RMB in thousands)			(unaudited)
Continuing transactions[(1)]				
Purchases of carbon anode blocks[(5)]				
– Chuangye Aluminum Technology	201,602	162,820	309,867	108,700
Sales of slag of carbon anode blocks[(5)]				
– Chuangye Aluminum Technology	6,946	15,027	23,461	5,713
Discontinued transactions[(1)]				
Management fee[(2)] and[(6)]				
– Chuangye Group	362,889	154,982	–	–
Purchases of alumina				
– Chuangye Group[(2)] and[(6)]	2,995,979	2,382,343	–	–
Sales of accessories[(6)]				
– Chuangye Group	–	8,888	1	–
– Chuangye Aluminum Technology	1,062	10,494	70	–
– Binzhou Weiqiao Salt Industrial Development Co. Ltd.	–	3	–	–
– Marine Chemical	–	–	1	–
– Zouping Weiqiao Recycling Resources Co., Ltd.	–	–	49	–
	1,062	19,385	121	–
Sales of caustic soda products[(5)]				
– Chuangye Group	–	67,926	–	–
Sales of dyed fabric and yarn-dyed denim products[(6)]				
– Chuangye Group[(4)]	–	1,344	–	–
Sales of aluminum alloy ingots[(5)]				
– Chuangye Group	–	24,059	1,928	–
Sales of aluminum busbars[(5)]				
– Chuangye Group	–	90,269	10,029	–
Sales of coal[(5)]				
– Chuangye Group	–	112,838	–	–
Purchases of molten aluminum[(6)]				
– Chuangye Group	–	–	97,530	–
Purchases of materials[(6)]				
– Chuangye Group	10	19,224	599	–
– Chuangye Aluminum Technology	199	596	7	–
– Marine Chemical	–	–	2	–
– Binzhou Weiqiao Salt Industrial Development Co. Ltd.	–	7,101	–	–
	209	26,921	608	–
Purchase of dyed fabric and yarn-dyed denim products and related raw materials[(6)]				
– Weiqiao Costume	4,885	2,490	–	–
– Weiqiao Tekuanfu	–	1,315	–	–
	4,885	3,805	–	–

	Year ended December 31,			Three months ended March 31,
	2008	2009	2010	2011
	(RMB in thousands)			(unaudited)
Purchase of cryolite[(6)]				
– Chuangye Group	–	–	6,256	–
Purchases of property, plant and equipment[(6)]				
– Chuangye Aluminum Technology	–	75,210	–	–
Purchase of land use rights[(6)]				
– Chuangye Group[(3)]	–	–	50,091	–
Provision of coal by[(5)]				
– Chuangye Group	–	442,094	–	–
Provision of electricity by[(6)]				
– Chuangye Group	1,680,975	1,280,787	–	–
Rental expense[(3)(6)]				
– Chuangye Group	15,128	16,318	1,558	–
Interest expense[(5)]				
– Chuangye Group	74,010	38,505	–	–

In addition to the above, during the year ended December 31, 2009, we provided steam, a side product in our production process, to Chuangye Group free of charge. Such provision has ceased since January 1, 2010.

(1) 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 footnotes (5) and (6) below, and the above continuing transactions will continue after our IPO, while the discontinued transactions will be discontinued.

(2) Pursuant to the agency agreement entered into by Chuangye Group and Aluminum & Power on May 25, 2006, Aluminum & Power agreed to operate the alumina business owned by Chuangye Group (the "Alumina Production Business") on behalf of Chuangye Group for the period from May 26, 2006 to December 31, 2009. In return, Chuangye Group agreed to pay management fee to Aluminum & Power for the sales of alumina to third parties at a predetermined rate of RMB400, RMB200 and RMB100 per ton for the period from May 26, 2006 to December 31, 2007 and for the year ended December 31, 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 statements 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 statements according to the requirements of IAS 39 as disclosed below. During the year ended December 31, 2009, Aluminum & Power has recorded in its books and records, 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 Group contracted RMB1,029.8 million of financial assets and RMB1,105.8 million of financial liabilities on behalf of the Alumina Production for 2009.

(3) 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 July 1, 2005. Pursuant to certain land purchase agreements entered into by Chuangye Group and the Group dated January 11, 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 were located, for an aggregate cash consideration of RMB50,091,000, which was paid in January 2010.

(4) The purchase and sales were related to the Dyeing Business of the Group incurred during the year ended December 31, 2009.

(5) The transactions were conducted at prices with reference to the then prevailing market prices.

(6) The transactions were conducted at prices agreed by both parties.

The table below sets forth balances with our related parties for the periods indicated:

					Assets held for sale				Contracted for alumina production business				Total			
	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011
								(RMB in thousands)								
				(unaudited)				(unaudited)				(unaudited)				(unaudited)
Amounts due from related parties:																
– Binzhou Weiqiao Salt Industrial Development Co. Ltd.	151,239	1,203	–	–	n/a	105,301	–	–	–	–	–	–	151,239	106,504	–	–
– Chuangye Aluminum Technology	–	80,646	–	–	n/a	–	–	–	222,112	219,705	–	–	222,112	300,351	–	–
– Weiqiao Tekuanfu	7	7	–	–	n/a	–	–	–	–	–	–	–	7	7	–	–
– Zouping Weiqiao Recycling Resources Co., Ltd.	–	–	–	–	n/a	–	–	–	8,960	1,334	–	–	8,960	1,334	–	–
– Zhengtong	8,821	71,900	–	–	n/a	10,925	–	–	–	–	–	–	8,821	82,825	–	–
– Other subsidiaries of Chuangye Group	–	–	–	–	n/a	–	–	–	156	742	–	–	156	742	–	–
Total	160,067	153,756	–	–	n/a	116,226	–	–	231,228	221,781	–	–	391,295	491,763	–	–

All amounts due from related parties were denominated in RMB, unsecured, interest free and repayable on demand.

					Assets held for sale				Contracted for alumina production business				Total			
	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011	2008	2009	2010	Three months ended March 31, 2011
								(RMB in thousands)								
				(unaudited)				(unaudited)				(unaudited)				(unaudited)
Amounts due to related parties:																
– Chuangye Aluminum Technology	956,345	–	–	–	n/a	–	–	–	100	2,000	–	–	956,445	2,000	–	–
– Chuangye Group	2,364,042	3,554,740	–	–	n/a	89,745	–	–	562,406	366,051	–	–	2,926,448	4,010,536	–	–
– Zhengtong	91,055	–	–	–	n/a	–	–	–	–	32,524	–	–	91,055	32,524	–	–
– Weiqiao Costume	500	–	–	–	n/a	617	–	–	–	–	–	–	500	617	–	–
– Zouping Weiqiao Recycling Resources Co., Ltd.	–	200	–	–	n/a	–	–	–	–	2,086	–	–	–	2,286	–	–
– Weiqiao Tekuanfu	–	1,539	–	–	n/a	–	–	–	–	–	–	–	–	1,539	–	–
– Binzhou Weiqiao Salt Industrial Development Co. Ltd.	60,000	–	–	–	n/a	–	–	–	–	–	–	–	60,000	–	–	–
Total	3,471,942	3,556,479	–	–	n/a	90,362	–	–	562,506	402,661	–	–	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 RMB946.5 million, RMB393.2 million, nil and nil at December 31, 2008, 2009, 2010 and March 31, 2011, which carried prevailing market rates for discounted bills banking facilities in the PRC.

The table below sets forth the guarantees and security for the periods indicated:

	2008	2009	2010	Three months ended March 31, 2011
	(RMB in thousands)			(unaudited)
Chuangye Group	1,394,569	1,640,198	–	–

Except as disclosed above and as disclosed elsewhere in our financial statements for 2008 through 2010 and March 31, 2011 (and the notes thereto) included elsewhere in this document, there was no related party transaction between us, our consolidated subsidiaries and our directors, executive officers and principal shareholders nor, in each case, the companies with whom they are affiliated, for the periods indicated above.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of March 31, 2011, our total borrowings amounted to RMB4,733.1 million (US$722.8 million), of which RMB89.1 million (US$13.6 million) were secured borrowings.

Our PRC subsidiaries have entered into bilateral loan agreements with a number of PRC banks, namely Agricultural Bank of China, Bank of Communications, China Construction Bank, Evergrowing Bank and Industrial and Commercial Bank of China. Other than one loan from Industrial and Commercial Bank of China which was a construction loan for our Binzhou manufacturing base, our loans are all working capital loans. The maturity of our loans ranges from one year to five years. Our bilateral loan agreements contain customary covenants and events of default. Some of the bilateral loan agreements between Industrial and Commercial Bank of China and our subsidiaries, Aluminum & Power and Shandong Hongqiao, prohibit the repayment of loans to their shareholders prior to the repayment of the principal amount of and accrued interest on the relevant loan. To the extent that our Company needs a payment from Aluminum & Power or Shandong Hongqiao in the form of a repayment of a shareholder loan, we may be required to prepay the relevant loans should we fail to obtain consents or waivers from Industrial and Commercial Bank of China at such time.

We have both fixed rate and floating rate borrowings. Fixed rate borrowings are charged at the prevailing market rates ranging from 5.58% to 5.73% per annum as of March 31, 2011. Interest on our borrowings at floating rates are calculated based on the borrowing rates announced by the People's Bank of China.

As of the date of this document, we do not have any offshore borrowing.

CHINA HONGQIAO GROUP LIMITED

Interim Financial Report
For the three months ended 31 March 2011

CHINA HONGQIAO GROUP LIMITED

INTERIM FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2011

CONTENTS

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
CHINA HONGQIAO GROUP LIMITED

Introduction

We have reviewed the interim financial information set out on pages 2 to 20, which comprises the condensed consolidated statement of financial position of China Hongqiao Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended and certain explanatory notes. The directors of the Company are responsible for the preparation of this interim financial information in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
July 10, 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2011

	NOTES	Three months ended 31 March 2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Continuing operations			
Revenue	3	5,065,037	3,629,120
Cost of sales		(3,254,731)	(2,070,721)
Gross profit		1,810,306	1,558,399
Other income and gain and loss	4	70,333	42,069
Distribution and selling expenses		(6,064)	(6,230)
Administrative expenses		(36,760)	(28,719)
Finance costs	5	(66,998)	(13,428)
Other expenses	7	(15,842)	-
Profit before taxation	7	1,754,975	1,552,091
Income tax expense	6	(439,603)	(385,980)
Profit for the period from continuing operations		1,315,372	1,166,111
Discontinued operations			
Profit for the period from discontinued operations	11	-	31,515
		1,315,372	1,197,626
Profit and total comprehensive income attributable to			
Owners of the Company		1,315,372	1,173,133
Non-controlling interests		-	24,493
		1,315,372	1,197,626
Earnings per share			
From continuing and discontinued operations			
Basic	9	0.26	0.23
From continuing operations			
Basic	9	0.26	0.23
From discontinuing operations			
Basic	9	-	-

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2011

	NOTES	At 31 March 2011 RMB'000 (Unaudited)	At 31 December 2010 RMB'000 (Audited)
Non-current Assets			
Property, plant and equipment	10	9,968,455	8,111,661
Deferred tax assets		42,542	40,231
Prepaid lease payments- non-current portion		308,121	153,129
Deposits paid for acquisition of property, plant and equipment		216,597	120,314
		10,535,715	8,425,335
Current Assets			
Inventories		1,359,240	1,122,100
Trade receivables	12	3,819	3,716
Bills receivables	13	877,201	882,570
Prepayments and other receivables		106,106	156,741
Prepaid lease payments- current portion		6,514	3,015
Restricted bank deposits		76,221	82,650
Bank balances and cash		7,793,263	2,669,569
		10,222,364	4,920,361
Current Liabilities			
Trade payables	14	1,205,698	1,045,906
Other payables		765,789	805,425
Income tax payable		216,476	157,974
Bank borrowings - due within one year	15	847,120	72,850
		3,035,083	2,082,155
Net Current Assets		7,187,281	2,838,206
Total Assets less Current Liabilities		17,722,996	11,263,541
Capital and Reserves			
Share capital	16	386,206	69
Reserves		13,450,790	7,302,472
Equity attributable to owners of the Company		13,836,996	7,302,541
Total Equity		13,836,996	7,302,541
Non-current liabilities			
Bank borrowings - due after one year	15	3,886,000	3,961,000
		17,722,996	11,263,541

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2011

	Attributable to owners of the Company							
	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011 (audited)	69	-	793,349	1,028,660	5,480,463	7,302,541	-	7,302,541
Profit and total comprehensive income for the period	-	-	-	-	1,315,372	1,315,372	-	1,315,372
Capitalisation of share premium	328,059	(328,059)	-	-	-	-	-	-
Issue of shares	58,078	5,306,954	-	-	-	5,365,032	-	5,365,032
Transaction costs attributable to issue of shares	-	(145,949)	-	-	-	(145,949)	-	(145,949)
At 31 March 2011 (unaudited)	386,206	4,832,946	793,349	1,028,660	6,795,835	13,836,996	-	13,836,996
At 1 January 2010 (audited)	114,398	-	-	597,792	2,372,351	3,084,541	62,950	3,147,491
Profit and total comprehensive income for the period	-	-	-	-	1,173,133	1,173,133	24,493	1,197,626
Issue of shares	1	-	-	-	-	1	-	1
Capitalization of retained earnings	656,758	-	-	-	(656,758)	-	-	-
Arising on the group reorganization (Note 16 (b))	(771,156)	-	(2,422,765)	-	-	(3,193,921)	-	(3,193,921)
Acquisition of additional interests in a subsidiary	-	-	22,261	-	-	22,261	(87,443)	(65,182)
At 31 March 2010(unaudited)	1	-	(2,400,504)	597,792	2,888,726	1,086,015	-	1,086,015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2011

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	1,540,195	349,764
Purchases of property, plant and equipment	(2,125,501)	(1,448,434)
Addition to prepaid lease payments	(159,922)	(51,594)
Proceeds on disposal of property, plant and equipment	-	1
Acquisition of a subsidiary (Note 17)	-	(176,013)
Interest received	1,344	2,688
Disposal of a subsidiary (Note 18)	-	514,188
Decrease in restricted bank deposits	6,429	395,813
Net cash used in investing activities	(2,277,650)	(763,351)
Proceeds from issue of shares	5,365,032	-
Shares issue expenses paid	(136,885)	-
New borrowings raised	700,000	2,201,124
Interest paid	(66,998)	(13,428)
Acquisition of additional interests in a subsidiary	-	(65,182)
Issue of shares	-	1
Repayments of borrowings	-	(482,493)
Advance from related parties	-	3,131,935
Repayment to related parties	-	(3,706,881)
Net cash from financing activities	5,861,149	1,065,076
Net increase in cash and cash equivalents	5,123,694	651,489
Cash and cash equivalents at 1 January	2,669,569	528,945
Cash and cash equivalents at 31 March, represented by bank balances and cash	7,793,263	1,180,434

1. GENERAL AND BASIS OF PREPARATION

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 and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 24 March 2011. Its parent and ultimate holding company is China Hongqiao Holdings Limited, a company incorporated in the British Virgin Island ("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, the People's Republic of China ("PRC"). The Company is an investment holding company.

The Company's subsidiaries are principally engaged in the business of manufacture and sales of aluminum products.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below:

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRS") which are effective for the Group's financial year beginning on 1 January 2011.

IFRSs (Amendments)	Improvements to IFRSs 2010
IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendment)	Classification of Rights Issues
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs

IAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
IFRS 7 (Amendment)	Disclosures - Transfers of Financial Assets[1]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[3]
IFRS 11	Joint Arrangements[3]
IFRS 12	Disclosure of Interests in Other Entities[3]
IFRS 13	Fair Value Measurement[3]
IAS 27 (Revised 2011)	Separate Financial Statements[3]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[3]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2013

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the new and revised Standards and Interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

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 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.

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

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Revenue from Sales of goods		
Aluminum products		
- molten aluminum alloy	3,742,779	2,312,189
- aluminum alloy ingots	1,146,202	1,060,625
- aluminum busbars	-	66,786
Steam supply income	176,056	189,520
	5,065,037	3,629,120

4. OTHER INCOME AND GAIN AND LOSS

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Continuing operations		
Interest income	1,344	2,688
Net gain on sales of raw materials (note)	57	401
Revenue from sales of slag of carbon anode blocks	58,159	31,898
Rental income	-	27
Foreign exchange gains (losses), net	1,445	(949)
Others	9,328	8,004
	70,333	42,069

4. OTHER INCOME AND GAIN AND LOSS - continued

Note:

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

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Revenue from sales of raw materials		
- other materials and accessories	1,255	834
Expenses related to sales of raw materials	(1,198)	(433)
	57	401

5. FINANCE COSTS

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Continuing operations		
Interest expenses on bank borrowings		
- wholly repayable within five years	66,998	13,428

6. INCOME TAX EXPENSE

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Continuing operations		
The charge comprises:		
Current tax	441,915	398,152
Deferred tax credit	(2,312)	(12,172)
	439,603	385,980

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries established in the PRC.

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

In addition, the EIT Law provides that qualified dividend income between two "PRC-resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law.

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

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Depreciation of property, plant and equipment	172,424	139,191
Loss on disposal of property, plant and equipment	-	122
Cost of inventories recognised as an expense	3,223,569	1,928,120
Amortisation of prepaid lease payments	1,431	178
Other expenses (Note)	15,842	-

Note: Other expenses mainly included listing expenses.

8. DIVIDENDS

No dividends were declared or paid during both periods.

9. EARNINGS PER SHARE

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

	Three months ended 31 March	
Earnings	2011	2010
	RMB'000	RMB'000
Profit for the period from continuing and discontinued operations attributable to owners of the Company	1,315,372	1,173,133
Profit for the period from continuing operation attributable to owners of the Company	1,315,372	1,142,248
Profit for the period from discontinued operations attributable to owners of the Company	-	30,885

	Three months ended 31 March	
	2011	2010
	'000 shares	'000 shares
Weighted average number of shares	5,078,667	5,000,000

9. EARNINGS PER SHARE - continued

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the basis that the ordinary shares of the Company issued upon the Group's reorganisation have been in issue on 1 January 2010, and 4,999,000,000 ordinary shares issued pursuant to the capitalisation issue completed on 24 March 2011 as disclosed in Note 16 have been adjusted retrospectively.

No diluted earnings per share is presented as the Company did not have potential ordinary shares outstanding during the period.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group purchased property, plant and equipment approximately RMB 45,028,000 (three months ended 31 March 2010: RMB1,271,975,000) from third parties and disposed property, plant and equipment of approximately Nil (three months ended 31 March 2010: RMB114,970,000) to 山東魏橋創業集團有限公司("Chuangye Group") (see Note 20(a) for its relationship with the Group).

In addition, the Group spent approximately RMB1,984,190,000 on the construction of its new product lines and power plant in the current period (three months ended 31 March 2010: RMB341,512,000).

11. DISCONTINUED OPERATIONS

The business of manufacture and sales of dyed fabric and yarn-dyed denim ("Dyeing Business"), manufacture and sales of caustic soda products ("Marine Chemical Business") are discontinued and their results are presented as discontinued operations in the condensed consolidated financial statements:

(a) On 28 December 2009, the Company's subsidiary, Shangdong Hongqiao New Meterial Co., Ltd. ("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), Binzhou Marine Chemical Co., Ltd. ("Marine Chemical"), Profit Long Investment Limited ("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. The Group has recorded a gain of RMB6,620,000 on the sale of Marine Chemical in the three months ended 31 March 2010.

Marine Chemical commenced its operation from May 2009.

11. DISCONTINUED OPERATIONS - continued

(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 20(b)) with a then fair value of RMB1,189,697,000, which resulted a gain of RMB24,895,000 in the three months ended 31 March 2010 on disposal of Dyeing Business. The transaction is accounted for as exchange of assets.

The results of the above discontinued operations for the period is analysed as follows:

	Three months ended 31 March 2010		
	Dyeing business RMB'000	Marine chemical business RMB'000	Total RMB'000
Gain on disposal of:			
Dyeing Business	24,895	-	24,895
Marine Chemical Business	-	6,620	6,620
Profit for the year from discontinued operations	24,895	6,620	31,515
Profit for the year attributable to			
Owners of the Company	24,397	6,488	30,885
Non-controlling interests	498	132	630
	24,895	6,620	31,515

12. 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 the reporting date is as follows:

	At 31 March 2011 RMB'000	At 31 December 2010 RMB'000
0 - 90 days	3,819	3,716

13. BILLS RECEIVABLE

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 the reporting date is as follows:

	At 31 March 2011 RMB'000	At 31 December 2010 RMB'000
0 - 90 days	453,072	344,020
91 - 180 days	424,129	538,550
	877,201	882,570

At 31 March 2011, bills receivable of approximately RMB785,101,000 (At 31 December 2010: RMB869,234,000) were endorsed with recourse to third parties and corresponding trade payables of RMB785,101,000 (At 31 December 2010: RMB869,234,000) were included in the condensed consolidated statement of financial position accordingly.

14. 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 reporting date is as follows:

	At 31 March 2011 RMB'000	At 31 December 2010 RMB'000
0 - 180 days	1,179,576	1,035,456
181 - 365 days	17,152	4,049
1 - 2 years	7,528	5,060
Over 2 years	1,442	1,341
	1,205,698	1,045,906

15. BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately RMB700,000,000 (three months ended 31 March 2010: RMB2,201,124,000) and repaid bank loans amounting to Nil (three months ended 31 March 2010: RMB482,493,000).

16. SHARE CAPITAL

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

	Notes	Number of shares	Shares capital US$
Authorised			
Ordinary shares of US$1.00 each			
At date of incorporation and 31 March 2010	(a)	50,000	50,000
Increase on subdivision of shares on 7 June 2010	(c)	4,950,000	-
Ordinary shares of US$0.01 each			
At 31 December 2010		5,000,000	50,000
Increase on 24 March 2011	(d)	9,995,000,000	99,950,000
Ordinary shares of US$0.01 each			
At 31 March 2011		10,000,000,000	100,000,000
Issued and fully paid			
Ordinary shares of US$1.00 each			
At date of incorporation and 31 March 2010	(a)	100	100
Issue of new shares on 13 April 2010	(b)	9,900	9,900
Increase on subdivision of shares on 7 June 2010	(c)	990,000	-
Ordinary shares of US$0.01 each			
At 31 December 2010		1,000,000	10,000
Capitalisation of share premium on 24 March 2011	(d)	4,999,000,000	49,990,000
Issue of shares upon listing of the Company's share on the Stock Exchange on 24 March 2011	(e)	885,000,000	8,850,000
Ordinary shares of US$0.01 each			
At 31 March 2011		5,885,000,000	58,850,000

	RMB'000
Shown on the condensed consolidated statement of financial position	386,206

Notes:

a) 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.

b) As part of the Group Reorganisation, the amount payable of RMB3,193,921,000 by the Group to Profit Long Investment Limited for the acquisition of the 98% interest in the Company's subsidiary, Shangdong Hongqiao New Meterial Co., Ltd, was recorded as deemed distribution during the three months ended 31 March 2010. Pursuant to an agreement entered into in April 2010, such amount was settled on 13 April 2010 by the issuance of 9,900 shares by the Company to its parent China Hongqiao Holdings Limited.

c) 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.

16. SHARE CAPITAL - continued

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

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

17. ACQUISITION OF A SUBSIDIARY

On 25 March 2010, the Group acquired certain assets through acquisition of a 100% equity interest in Binzhou Zhengtong New Aluminum Profiles Co., Ltd. ("Zhengtong"), from Ms. Zheng Shuliang ("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	205,000
Total consideration satisfied by cash	205,000
Net cash outflow arising from acquisition	
Cash consideration paid	(205,000)
Cash and cash equivalents acquired	28,987
	(176,013)

18. DISPOSAL OF A SUBSIDIARY

During the three months ended 31 March 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 arising on disposal	
Cash received	600,000
Cash and cash equivalents disposed of	(85,812)
	514,188

19. CAPITAL COMMITMENTS

	31 March 2011 RMB'000	31 December 2010 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
- contracted for but not provided	2,043,093	178,733
- authorised but not contracted for	6,636,481	2,650,614
	8,679,574	2,829,347

20. RELATED PARTY TRANSACTIONS

The related party transactions disclosed below include those from the discontinued operations.

(a) Name and relationship with related parties

Name	Relationship
Chuangye Group	Note ii
濱州魏橋鋁業科技有限公司("Aluminum Technology") (note i)	Controlled by Chuangye Group
鄒平魏橋再生資源利用有限公司("Zouping Weiqiao Recycling Resources Co., Ltd") (note i)	Controlled by Chuangye Group
Marine Chemical	Notes i and iii
Ms. Zheng	Spouse of Mr. Zhang

Notes:

(i) The English names of the above 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 each of the three months ended 31 March 2010 and 2011.

(iii) Marine Chemical was controlled by Huibin Dyeing since 1 January 2010.

20. RELATED PARTY TRANSACTIONS - continued

(b) Except as disclosed in elsewhere in the condensed consolidated financial statements, the Group has entered into the following significant transactions with its related parties during the reporting period:

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Continuing transactions		
Purchases of carbon anode blocks		
- Aluminum Technology	108,700	51,621
Sales of slag of carbon anode blocks		
- Aluminum Technology	5,713	5,316
Discontinued transactions		
Sales of accessories		
- Chuangye Group	-	1
- Aluminum Technology	-	70
- Marine Chemical	-	1
- 鄒平魏橋再生資源利用有限公司	-	49
	-	121
Sales of aluminum alloy ingots		
- Chuangye Group	-	1,928
Sales of aluminum busbars		
- Chuangye Group	-	10,029
Purchases of molten aluminum		
- Chuangye Group	-	97,530
Purchases of materials		
- Chuangye Group	-	599
- Aluminum Technology	-	7
- Marine Chemical	-	2
	-	608
Purchase of cryolite		
- Chuangye Group	-	6,256
Purchase of land use rights		
- Chuangye Group	-	50,091
Rental expense		
- Chuangye Group	-	1,558

20. RELATED PARTY TRANSACTIONS - continued

(b) Except as disclosed in elsewhere in the condensed financial statements, the Group has entered into the following significant transactions with its related parties during the reporting period: - continued

Note: 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 were located, for an aggregate cash consideration of RMB50,091,000, which was paid in January 2010.

(c) Compensation of key management personnel

	Three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Short term employee benefit	37	22
Retirement benefits scheme contributions	4	2
	41	24

21. 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, totaling 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.

21. CONTINGENT LIABILITY - continued

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, 濱州高新鋁電股份有限公司(Binzhou Gaoxin Aluminum & Power Joint Stock Co., Ltd.) (" Gaoxin Aluminum & Power ") (formerly known as 鄒平高新熱電有限公司) 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 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 statements 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.