# 興發鋁業控股有限公司
# XINGFA ALUMINIUM HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 00098)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

### HIGHLIGHTS

1. Turnover maintained at approximately RMB2,136.37 million for the year ended 31 December 2008 (2007: RMB2,148.67 million). The slight decrease in turnover was mainly due to the drop of average selling price of aluminium profiles during the year. Due to the global economy turmoil, the market price of aluminium ingots dropped substantially in 2008. Since aluminium ingots constitute approximately 77% of our cost of sales and we charge our customers the processing fees with reference to our material costs, the drop of market price of aluminium ingots caused the decrease in average selling price of our products inevitably.

2. The drop of average selling price of our products was partially offset by the increase in sales volume. Our sales volume of aluminium profiles increased by 6.6% from approximately 89,300 tonnes to approximately 95,200 tonnes for the years ended 31 December 2007 and 2008 respectively. Our operations remained very healthy. Our production of aluminium profiles increased by 4.2% from 91,500 tonnes to 95,300 tonnes whilst the percentage of sales to production was further improved from 97.6% to 99.9% for the years ended 31 December 2007 and 2008 respectively.

3. Gross profit decreased by 12% from approximately RMB199.18 million to RMB175.26 million, while our gross profit margin dropped by 1.1 percentage points from 9.3% to 8.2% for the years ended 31 December 2007 and 2008 respectively primarily due to the increase in cost of production during the year under review, such as labour costs, fuel costs and overheads etc.

4. Net profit for the year decreased by approximately 89.9% from RMB291.60 million to RMB29.31 million for the years ended 31 December 2007 and 2008 respectively. The deterioration in the net profit margin from 13.6% to 1.4% during these two years of review was mainly attributable to the combined effect of the deterioration of gross profit margin by 1.1 percentage points, decrease in one-off gain on disposal of lease prepayments of approximately RMB172.86 million, increase in net losses of aluminum future contracts of RMB19.34 million, increase in one-off payment of IPO related professional fees of RMB9.61 million and the increase in provision for enterprise income tax of RMB8.70 million.

## RESULTS

The board of directors (the "**Directors**" or the "**Board**") of Xingfa Aluminium Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**", "our **Group**", "**we**" or "**us**") prepared under International Financial Reporting Standards ("**IFRS**") for the year ended 31 December 2008, together with the comparative figures for the corresponding financial year ended 31 December 2007 and the relevant explanatory notes as set out below.

**Consolidated income statement**

*For the year ended 31 December 2008*

*(Expressed in Renminbi)*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **2,136,368** | 2,148,674 |
| Cost of sales | | **(1,961,110)** | (1,949,498) |
| **Gross profit** | | **175,258** | 199,176 |
| Other net (loss)/income | 4 | **(4,578)** | 182,168 |
| Distribution expenses | | **(37,301)** | (32,529) |
| Administrative expenses | | **(61,914)** | (29,849) |
| **Profit from operations** | | **71,465** | 318,966 |
| Finance income | | **6,622** | 2,435 |
| Finance expenses | | **(40,070)** | (30,478) |
| **Net finance costs** | | **(33,448)** | (28,043) |
| **Profit before taxation** | 5 | **38,017** | 290,923 |
| Income tax (expenses)/credit | 6 | **(8,704)** | 677 |
| **Profit for the year** | | **29,313** | 291,600 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **29,313** | 291,750 |
| Minority interests | | — | (150) |
| **Profit for the year** | | **29,313** | 291,600 |
| **Dividends payable to equity holders of the Company attributable to the year:** | 7 | | |
| Interim dividends declared and paid during the year | | — | 118,961 |
| Dividends proposed after balance sheet date | | | |
| — Final dividends | | **8,778** | — |
| — Special dividends | | **12,122** | — |
| | | **20,900** | 118,961 |
| **Basic and diluted earnings per share** ***(RMB yuan)*** | 8 | **0.075** | 0.937 |

**Consolidated balance sheet**
*at 31 December 2008*
*(Expressed in Renminbi)*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **351,713** | 139,007 |
| Lease prepayments | | **153,661** | — |
| Deferred tax assets | | **390** | — |
| | | **505,764** | 139,007 |
| **Current assets** | | | |
| Inventories | | **196,332** | 239,625 |
| Derivative financial instruments | | — | 810 |
| Trade and other receivables | *9* | **466,720** | 493,145 |
| Pledged deposits | | **36,646** | 32,422 |
| Cash and cash equivalents | | **214,905** | 146,411 |
| Assets classified as held for sale | | — | 10,486 |
| | | **914,603** | 922,899 |
| **Current liabilities** | | | |
| Loans and borrowings | | **559,329** | 297,000 |
| Trade and other payables | *10* | **195,544** | 246,776 |
| Derivative financial instruments | | **1,137** | 722 |
| Current tax payables | | **595** | 2,086 |
| | | **756,605** | 546,578 |
| **Net current assets** | | **157,998** | 376,321 |
| **Total assets less current liabilities** | | **663,762** | 515,328 |
| **Non-current liabilities** | | | |
| Loans and borrowings | | — | 80,000 |
| | | — | 80,000 |
| **Net assets** | | **663,762** | 435,328 |
| **Capital and reserves** | | | |
| Share capital | | **3,731** | 210,000 |
| Reserves | | **660,031** | 225,328 |
| **Total equity** | | **663,762** | 435,328 |

*Notes:*

## 1. COMPANY BACKGROUND AND BASIS OF PRESENTATION

### (a) Reporting entity

Xingfa Aluminium Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 September 2007 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (the "Group") are principally engaged in the manufacturing and sale of aluminium profiles (the "Aluminium Profile Business").

### (b) Reorganisation

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries now comprising the group (collectively refer to as the "Group") completed on 29 February 2008 to rationalise the Group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the operations of Aluminium Profile Business with the relevant assets and liabilities of Guangdong Xingfa Group Co., Ltd. ("Xingfa Group"), Guangdong Xingfa Innovation Co., Ltd. ("Xingfa Innovation") and Foshan Xingfa Aluminum Profiles Co., Ltd ("Foshan Xingfa") (collectively refer to as the "Predecessor Entities") were transferred to the subsidiaries now comprising the Group and the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus dated 17 March 2008 issued by the Company.

The shares of the Company were listed on the Stock Exchange on 31 March 2008.

### (c) Basis of presentation

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity holders (the "Controlling Shareholders"), the Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, the Company has applied merger accounting to account for the Reorganisation in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), under which the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group as if the Aluminium Profile Business had been operated by the Group and the current group structure had been in existence for both years presented, rather than from 29 February 2008.

The Predecessor Entities' assets and liabilities which are related to the Aluminium Profile Business are combined using their existing book values from the Controlling Shareholders' perspective. Certain assets and liabilities retained by the Predecessor Entities at 28 July 2007 (the "Retained Assets") were treated as deemed appropriation to the equity holders of the Company at 28 July 2007. Accordingly, the consolidated balance sheets as at 31 December 2007 have not included the Retained Assets but have been prepared to present the state of affairs of the Company and its subsidiaries now comprising the Group as at that date. The consolidated balance sheet as at 31 December 2008 has been prepared to present the state of affairs of the Company and its subsidiaries as at 31 December 2008.

The consolidated results of the Group for the year ended 31 December 2007 include the results of operations of Aluminium Profile Business of the Predecessor Entities and the results of the operations of the subsidiaries now comprising the Group for the year ended 31 December 2007 (or where the companies were established/incorporated at a date later than 1 January 2007, for the period from the date of establishment/incorporation to 31 December 2007). The consolidated results of the Group for the year ended 31 December 2008 include the results of the Company and its subsidiaries with effect from 1 January 2008 or since their respective dates of incorporation or being acquired, whichever is a shorter period.

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

## 2. SEGMENT REPORTING

As all of the Group's total turnover and profits were derived from the Aluminium Profile Business and over 90% of the Group's revenue is generated from the PRC, no analysis by business segments is presented for the Group. In addition, the Group's business participates primarily in one geographical location classified by the location of assets, that is the PRC, and accordingly, no geographical segmental analysis is provided.

## 3. TURNOVER

The Group is principally engaged in the Aluminium Profile Business. Turnover represents the sales value of goods supplied to customers. Turnover excludes value added taxes or other sales taxes and is after allowance for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Manufacture and sale of aluminium profiles | **2,025,322** | 2,039,331 |
| Manufacture and sale of aluminium panels, moulds and spare parts | **109,102** | 108,920 |
| Provision of processing services | **1,944** | 423 |
| | **2,136,368** | 2,148,674 |

## 4. OTHER NET (LOSS)/INCOME

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Compensation from patent infringements | — | 936 |
| Government grants | **2,927** | 415 |
| Rental income | | |
| — investment property | — | 329 |
| — others | **232** | 78 |
| Net realised and unrealised (losses)/gains of derivative financial instruments | | |
| — aluminum future contracts | **(19,342)** | 3,247 |
| — foreign exchange forward contracts | **(580)** | — |
| Gain on disposal of lease prepayments | — | 174,941 |
| Gain on disposal of property held for sale | **11,637** | — |
| Services income generated from design and installation of aluminium panels | — | 1,668 |
| Others | **548** | 554 |
| | **(4,578)** | 182,168 |

## 5. PROFIT BEFORE TAXATION

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (a) Finance income and expenses: | | |
| Interest income on bank deposits | **(6,622)** | (2,435) |
| Finance income | **(6,622)** | (2,435) |
| Interest expenses on bank loans | **33,282** | 26,211 |
| Net foreign exchange losses | **6,788** | 4,267 |
| Finance expenses | **40,070** | 30,478 |
| Net finance costs | **33,448** | 28,043 |

|  | **2008** | 2007 |
|---|---|---|
|  | ***RMB'000*** | *RMB'000* |

(b) Other items:

|  | **2008** *RMB'000* | 2007 *RMB'000* |
|---|---|---|
| Depreciation | | |
| — Property, plant and equipment | **26,929** | 23,872 |
| — Investment property | **—** | 94 |
| Amortisation of lease prepayments | **1,338** | 1,143 |
| Research and development costs | **2,403** | 2,265 |
| Increase in inventory provisions | **1,900** | — |
| Auditor's remuneration | | |
| — audit services | **998** | 195 |
| — other services | **1,050** | — |
| Cost of inventories | **1,961,110** | 1,949,498 |
| Operating lease charges | | |
| — plants and machineries | **3,607** | 2,345 |
| — properties | **11,046** | 4,473 |

## 6. INCOME TAX EXPENSES/(CREDIT)

(a) Income tax expenses/(credit) in the income statement represents:

|  | **2008** | 2007 |
|---|---|---|
|  | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC income tax | **8,862** | — |
| Provision for PRC land appreciation tax | **232** | 2,081 |
|  | **9,094** | 2,081 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(390)** | (2,818) |
| Effect of tax rate change | **—** | 60 |
|  | **(390)** | (2,758) |
|  | **8,704** | (677) |

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI. No provision for Singapore Corporate Profits Tax and Hong Kong Profits Tax was made as the Group has no assessable profits subject to Singapore Corporate Profits Tax and Hong Kong Profits Tax during the year (2007: Nil).

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

- On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which has taken effect on 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and "Guo Fa [2007] No. 39" were promulgated to specify certain implementation details and grandfathering arrangements of the new tax law. As a result of the New Tax Law, the subsidiaries of the Company in the PRC are subject to a unified tax rate of 25%. The deferred tax assets and liabilities were remeasured for the change in applicable tax rates as a result of the new tax law during the year ended 31 December 2007.

- Guangdong Xingfa Aluminium Co., Ltd. ("Guangdong Xingfa") is a wholly foreign owned enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. The prevailing tax rate of Guangdong Xingfa in 2008 is 25% (2007: 33%), but Guangdong Xingfa can continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. No provision for PRC income tax has been made during 2007 as 2007 is the entity's second profit-making year and the income tax rate applicable to Guangdong Xingfa was 12.5% for the year ended 31 December 2008.

- Xinggao Aluminium is a limited liability company established under the laws of the PRC. It is liable to the PRC enterprise income tax at a rate of 25% during 2008 (2007: 33%).

(iii) For the year ended 31 December 2007, income tax credit included the tax effects of Predecessor Entities. Pursuant to the income tax rules and regulations of the PRC, the Predecessor Entities are liable to PRC enterprise income tax as follows:

- Guangdong Xingfa Group Co., Ltd. was a limited liability company established under the laws of the PRC. It was liable to the PRC enterprise income tax at a rate of 33% for the year ended 31 December 2007.

- Guangdong Xingfa Innovation Co., Ltd. is recognised as an Advanced Technology Enterprise according to the approval from Guangdong Provincial Department of Science and Technology. Pursuant to the approval of Local Tax Bureau of Foshan in 2003, income tax rate applicable to the entity was 15% for the year ended 31 December 2007.

(iv) Pursuant to the New Tax Law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. As Guangdong Xingfa and Xinggao Aluminum are held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

According to the notice Caishui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Accordingly, undistributed profits amounted to RMB205,153,000 as retained by the Group's PRC subsidiaries as at 31 December 2007 are not subject to 5% withholding tax on future distributions.

(v) Pursuant to "Fo Fu Ban [2003] No. 46" and "Fo Di Shui Fa [2003] No. 68" issued by the relevant government authorities in Foshan, the land appreciation tax rate applicable to the Group is 1% on the sales proceed on disposal of land use right. Gain on disposal of land use right, net of land appreciation tax and surcharges, is subject to the relevant income tax rules and regulations of the PRC as mentioned above.

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **38,017** | 290,923 |
| Notional tax on profit before taxation, calculated at the rates applicable to the jurisdiction concerned | **14,630** | 96,004 |
| Effect of tax rate change | — | 60 |
| Tax effect of non-deductible expenses | **2,997** | 1,673 |
| Effect of tax concession | **(9,253)** | (99,808) |
| Tax loss not recognised | **156** | — |
| Tax effect on land appreciation tax | **(58)** | (687) |
| Provision for land appreciation tax | **232** | 2,081 |
| Income tax expenses/(credit) | **8,704** | (677) |

Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

Effect of tax concession represents the difference between standard income tax rate and preferential income tax rate enjoyed by the Group.

## 7. DIVIDENDS

The Directors recommended the payment of a special dividend of RMB0.029 per ordinary share and subject to the approval by the shareholders of the Company at the forthcoming annual general meeting, a final dividend of RMB0.021 per ordinary share for the year ended 31 December 2008 (2007: nil). The pay-out ratio (including the final dividend and the special dividend) is about 70% based on net profit in 2008. The final and special dividends proposed after the balance sheet date have not been recognised as liability at the balance sheet date.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share during the year ended 31 December 2008 was based on the profit attributable to equity holders of the Company of RMB29,313,000 (2007: RMB291,750,000) and the 391,789,000 (2007: 311,410,000) shares in issue and issuable during the year, comprising 10,000,000 ordinary shares as at 31 December 2007, 10,000,000 ordinary shares issued pursuant to the Reorganisation, 291,410,000 ordinary shares issued pursuant to the capitalisation issue and the 106,590,000 ordinary shares issued pursuant to the initial public offering as detailed in the prospectus dated 17 March 2008 issued by the Company. The weighted average number of shares in issue during the year ended 31 December 2007 and 2008 is calculated on the assumption that the 311,410,000 shares issued upon the Reorganisation and the Capitalisation Issue (as described in the prospectus of the Company dated 17 March 2008) were outstanding throughout the entire two years.

There were no dilutive potential ordinary shares in issue for the years ended 31 December 2007 and 2008, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 9. TRADE AND OTHER RECEIVABLES

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **281,422** | 279,992 |
| Bills receivable | **138,544** | 120,049 |
| Other receivables | **46,754** | 93,104 |
| | **466,720** | 493,145 |

Included in trade and other receivables are trade receivables (net of impairment loss for bad and doubtful debts) and bills receivable with the following aging analysis based on due days as of the balance sheet date. The credit period granted by the Group to customers ranges from 60 days to 90 days, according to the credit history of each customer.

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current | **419,966** | 400,041 |

Included in bills receivable are bills discounted to banks with recourse amounted to RMB26,346,000 as at 31 December 2008 (2007: RMB7,000,000).

## 10. TRADE AND OTHER PAYABLES

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **93,318** | 53,578 |
| Bills payable | **28,807** | 100,197 |
| Other payables and accruals | **71,424** | 92,191 |
| Deferred income *(i)* | **1,995** | 804 |
| | **195,544** | 246,770 |

Included in trade and other payables are trade payables and bills payable with the following aging analysis as of the balance sheet date. The credit period granted by various suppliers ranges from 30 days to 60 days.

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Due within 1 month or on demand | **37,485** | 21,239 |
| Due after 1 month but within 3 months | **76,520** | 76,536 |
| Due after 3 months but within 6 months | **8,120** | 56,000 |
| | **122,125** | 153,775 |

*(i)* Deferred income consists of deferred government grants. The grants from local government were conditional and the conditions would be fulfilled upon the completion of several research projects and the approval obtained from the relevant authorities. These grants will be recognised as other income when the conditions are fulfilled.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations

We are one of the leading aluminium profiles manufacturers in the PRC and principally engaged in the manufacture and sale of aluminium profiles which are applied as construction and industrial materials. Leveraging on our advanced R&D capability and commitment to quality, our Group has established extensive and stable sales networks in the PRC and overseas for the past 20 years. Xingfa Aluminium was awarded as the No.1 of the Top-Ten National Aluminium Profiles Enterprises by the China Non-Ferrous Metals Fabrication Industrial Association ("CNFA") in 2003, and such status was re-confirmed by CNFA in February 2008.

### Business Move

On 26 July 2008, we entered into an agreement with the shareholders of Xinggao Aluminium through an indirect wholly-owned subsidiary, Guangdong Xingfa, to acquire 100% equity interest in Xinggao Aluminium. The major assets of Xinggao Aluminium included the Sanshui factory and certain machinery and equipment previously leased to our Group prior to such acquisition. The aggregate consideration for the acquisition is RMB142,699,000, of which RMB83,835,000 was funded by our Group with the proceeds from the global offering and the rest by our internal resources.

The acquisition was one of the important development plans as set out in our prospectus dated 17 March 2008. We are very pleased that we are able to achieve it soon after the listing. The acquisition gave us the ownership of the land and premises of the Sanshui factory and certain machinery and equipment that we previously leased from our related parties. The construction of the Sanshui factory commenced in 2007 and we have been gradually re-locating our production facilities to the new Sanshui production base. With a site area of about 498,000 sq.m. and an aggregate gross floor area of approximately 200,000 sq.m., the Sanshui production base is more than 1.5 times of the size of our Group's existing factory in Chancheng and will be equipped with numerous production lines and facilities. The entire relocation project is expected to be completed by late 2009 and it is expected to increase our Group's annual designed production capacity to 150,000 tonnes of aluminium profiles in 2010. The aggregate annual designed production capacity of aluminium profiles was approximately 120,000 tonnes as at 31 December 2008.

In 2008, the economy turmoil spread throughout globally which led to the substantial drop of market price of aluminium ingots. The market price of aluminium ingots dropped from the highest of RMB19,799 per tonne in March 2008 to the lowest of RMB11,452 per tonne in December 2008. The average price of aluminium ingots also dropped by 12.5% from RMB19,718 per tonne to RMB17,257 per tonne for the years ended 31 December 2007 and 2008 respectively. This inevitably impacted our Group's results for this financial year since aluminium ingots represented approximately 77% of our cost of sales whilst we charged our customers the processing fee with reference to our material costs.

## Turnover

Turnover maintained at approximately RMB2,136.37 million for the year ended 31 December 2008 (2007: RMB2,148.67 million). The slight decrease in turnover was mainly due to the drop of average selling price of aluminium profiles during the year. As mentioned in the above, the market price of aluminium ingots dropped substantially in 2008. Since aluminium ingots constituted approximately 77% of our cost of sales and we charged our customers the processing fee with reference to our material costs, the drop of market price of aluminium ingots caused the decrease in average selling price of our products inevitably.

The drop of average selling price of our products was partially offset by the increase in sales volume. Our sales volume of aluminium profiles increased by 6.6% from approximately 89,300 tonnes to approximately 95,200 tonnes for the years ended 31 December 2007 and 2008 respectively. Our operations remained very healthy. Our production of aluminium profiles increased by 4.2% from approximately 91,500 tonnes to approximately 95,300 tonnes whilst the percentage of sales to production was further improved from 97.6% to 99.9% for the years ended 31 December 2007 and 2008 respectively. Landmark projects in 2008 included Beijing National Olympic Green Convention Center, Beijing International Trade Center Phase III, Beijing Capital Airport Phase III, Provincial Government Building of Guizhou, Hong Kong Disneyland Phase II and Asia World Expo in Hong Kong etc..

## Cost of sales

Our cost of sales increased slightly by 0.6% from approximately RMB1,949.50 million to approximately RMB1,961.10 million for the years ended 31 December 2007 and 2008 respectively. The increase in the cost of sales was primarily due to the increase in cost of production during the year under review, such as labour costs, fuel costs and overheads etc..

## Gross profit and gross profit margin

As a result of the factors mentioned above, our gross profit decreased by 12% from approximately RMB199.18 million to RMB175.26 million, while our gross profit margin dropped by 1.1 percentage points from 9.3% to 8.2% for the years ended 31 December 2007 and 2008 respectively.

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

| | **2008** | 2007 |
|---|---|---|
| Average gross profit margin | **8.2%** | 9.3% |
| — Aluminium profiles with surface finishing | **5.7%** | 8.9% |
| — Plain aluminium profiles | **13.4%** | 10.9% |

The decrease in overall gross profit margin was mainly attributable to the following factors:

1. The equipment utilisation rate dropped slightly from 80.7% to 79.4% for the years ended 31 December 2007 and 2008 respectively due to slow down of sales in the second half of the year caused by the global financial turmoil and completion of major projects before the launch of the Beijing Olympics in August 2008;

2. The substantial drop of gross profit margin of aluminium profiles with surface finishing by 3.2 percentage points due to the increase in cost of production for surface finishing;

3. Partially offset by the improvement of gross profit margin of plain aluminium profiles by 2.5 percentage points due to the increase in average processing fee during the year; and

4. The slight change in our Group's product mix as a result of the increase in sales volume of aluminium profiles with surface finishing during the year, whose gross profit margin deterioration caused the drop of overall gross profit margin in 2008.

**Other net (loss)/income**

Other net (loss)/income decreased from a gain of RMB182.17 million for the year ended 31 December 2007 to a loss of RMB4.58 million for the year ended 31 December 2008. It comprises the following items:

| | *Notes* | **2008** | 2007 |
|---|---|---|---|
| Gain on disposal of lease prepayments | *(1)* | — | 174,941 |
| Gain on disposal of assets classified as held for sale | *(1)* | **11,637** | — |
| Net realised and unrealised (losses)/gains of derivative financial instruments | | | |
| — aluminum future contracts | *(2)* | **(19,342)** | 3,247 |
| — foreign exchange forward contracts | | **(580)** | — |
| Others | | **3,707** | 3,980 |
| Other net (loss)/income | | **(4,578)** | 182,168 |

*Notes:*

1. In 2007, our Group recognised a one-off gain on disposal of lease prepayments of approximately RMB174.94 million, net of business tax and surcharges. In the current year under review, subsequent to the listing of the Company, our Group disposed of the assets classified as held for sale and recorded a one-off gain of approximately RMB11.64 million.

2. In 2008, due to the global economy turmoil, the market price of aluminium ingots dropped substantially. Our Group incurred a substantial net loss of aluminum future contracts of approximately RMB19.34 million as compared to a gain of approximately RMB3.25 million for the year ended 31 December 2007.

**Distribution expenses**

Our distribution expenses increased by approximately 14.7% from RMB32.53 million to RMB37.30 million, while our distribution expenses as a percentage of turnover increased from 1.5% to 1.7% for the years ended 31 December 2007 and 2008 respectively. The increase was mainly attributable to the increase in advertising expenses by approximately RMB3.50 million or 51.7% as a result of the launch of television commercials to promote our Group's image in 2008.

**Administrative expenses**

Our administrative expenses increased by approximately 107.4% from RMB29.85 million to RMB61.91 million, while our administrative expenses as a percentage of turnover increased significantly from approximately 1.4% to 2.9% for the years ended 31 December 2007 and 2008 respectively. The substantial increase in our administrative expenses was mainly attributable to the following factors:

1. Payment of a one-off IPO related professional fees of approximately RMB9.61 million in 2008;

2. Increase in staff costs in accordance with the implementation of Labours' Law in PRC;

3. Increase in recurring professional fees such as compliance advisor, legal fees, public relations, and printing charges of RMB6.45 million subsequent to the listing of the Company and in relation to the acquisition of Xinggao Aluminium; and

4. Increase in Directors' remuneration subsequent to the listing of our Company.

**Profit from operations**

As a result of the factors discussed above, the results from operating activities dropped by 77.6% from RMB318.97 million to RMB71.47 million for the years ended 31 December 2007 and 2008 respectively. The decrease in operating profit was mainly attributable to the deterioration of gross profit margin, decrease in one-off gain on disposal of lease prepayments, increase in net losses of aluminum future contracts, and increase in distribution and administrative expenses resulting from the payment of a one-off IPO related professional fees.

**Net finance costs**

Net finance costs increased by 19.3% from RMB28.04 million to RMB33.45 million for the years ended 31 December 2007 and 2008 respectively. The increase in net finance costs was mainly due to the increase in interest rate and average bank borrowings to finance working capital and capital expenditure for the expansion of our business during the year under review. Net finance costs as a percentage of turnover increased from 1.3% to 1.6% for the years ended 31 December 2007 and 2008 respectively.

**Income tax (expenses)/credit**

Our Group is not subject to any income tax in the Caymans Islands and the BVI. No provision for Singapore Corporate Profits Tax and Hong Kong Profits Tax was made as our Group has no assessable profits during the year (2007: Nil).

Guangdong Xingfa is a wholly foreign owned enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. No provision for PRC income tax has been made during 2007 as 2007 is the entity's second profit-making year.

Xinggao Aluminium is a limited liability company established under the laws of the PRC and is liable to the PRC enterprise income tax at a rate of 25%. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which has taken effect on 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and "Guo Fa [2007] No. 39" were promulgated to specify certain implementation details and grandfathering arrangements of the new tax law. As a result of the New Tax Law, Guangdong Xingfa is subject to a unified tax rate of 25% and will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. The applicable tax rate of Guangdong Xingfa during 2008 is 12.5%.

Further under the New Tax Law, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As Guangdong Xingfa and Xinggao Aluminium are held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

According to the notice Caishui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Accordingly, undistributed profits amounted to RMB205,153,000 retained by the Group's PRC subsidiaries as at 31 December 2007 are not subject to 5% withholding tax on future distributions.

Pursuant to "Fo Fu Ban [2003] No. 46" and "Fo Di Shui Fa [2003] No. 68" issued by the relevant government authorities in Foshan, the land appreciation tax rate applicable to our Group is 1% on the sales proceed on disposal of land use right. Gain on disposal of land use right, net of land appreciation tax and surcharges, is subject to the relevant income tax rules and regulations of the PRC as mentioned above.

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

As a result of the foregoing factors, the net profit for the year decreased by approximately 89.9% from RMB291.60 million to RMB29.31 million for the years ended 31 December 2007 and 2008 respectively. The deterioration in the net profit margin from 13.6% to 1.4% during these two years under review was mainly attributable to the combined effect of the deterioration of gross profit margin by 1.1 percentage points, decrease in one-off gain on disposal of lease prepayments of approximately RMB172.86 million, increase in net losses of aluminum future contracts of RMB19.34 million, increase in one-off payment of IPO related professional fees of RMB9.61 million and the increase in provision for enterprise income tax of RMB8.70 million.

## ANALYSIS OF FINANCIAL POSITION

### Current and quick ratios

The following table sets out the summary of our Group's current and quick ratios as at 31 December 2007 and 2008:

| | **As at 31 December 2008** | As at 31 December 2007 |
|---|---|---|
| Current Ratio *(Note)* | **1.21** | 1.69 |
| Quick Ratio *(Note)* | **0.95** | 1.25 |

*Note:* Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year.

Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the year.

In view of the gradual drop of PBOC interest rate announced by People's Bank of China in 2008, our Group repaid long-term borrowings upon maturity and assumed more short-term bank borrowings to finance its business operation. Therefore, the current ratio and quick ratio of our Group had decreased slightly to 1.21 and 0.95 respectively. Our Directors are of the opinion that the current capital structure of our Group is very healthy and our Group would be benefited from the drop of PBOC interest rate when we renew the short-term loan maturing in 2009.

**Gearing ratio**

The following table sets out the summary of our Group's gearing ratio as at 31 December 2007 and 2008:

| | **As at 31 December 2008** | As at 31 December 2007 |
|---|---|---|
| Gearing ratio *(Note)* | **39.4%** | 35.5% |

*Note:* Gearing ratio is calculated based on the loans and borrowings divided by total assets and multiplied by 100%.

As at 31 December 2008, our gearing ratio was increased to 39.4% which was mainly due to the increase in total bank borrowings of RMB182.33 million to finance its business operation.

**Inventory Turnover Days**

The following table sets out the summary of our Group's inventory turnover days during the two years ended 31 December 2007 and 2008:

| | **2008** | 2007 |
|---|---|---|
| Inventory Turnover Days *(Note)* | **41 days** | 39 days |

*Note:* Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the year divided by the total cost of sales during the year multiplied by 365 days.

Inventories balance as at the respective years end during the two years ended 31 December 2007 and 2008 represents the amounts of our raw materials, work in progress and the unsold finished goods.

Our inventory turnover days were slightly increased from 39 days to 41 days for the years ended 31 December 2007 and 2008 respectively.

**Debtors' turnover days**

The following table sets out the summary of our Group's debtors' turnover days during the two years ended 31 December 2007 and 2008:

| | **2008** | 2007 |
|---|---|---|
| Debtors Turnover Days *(Note)* | **70 days** | 65 days |

*Note:* Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables for the year divided by turnover during the year multiplied by 365 days.

Our debtors turnover days were slightly increased from 65 days to 70 days for the years ended 31 December 2007 and 2008 respectively. It was mainly due to more customers utilised bills for settlement as evidenced by the increase in bills receivables balances by 15.4% from RMB120.05 million to RMB138.54 million as at 31 December 2007 and 2008 respectively.

**Creditors' turnover days**

The following table sets out the summary of our Group's creditors' turnover days during the two years ended 31 December 2007 and 2008:

| | **2008** | 2007 |
|---|---|---|
| Creditors' Turnover Days *(Note)* | **26 days** | 53 days |

*Note:* Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year divided by the total cost of sales during the year multiplied by 365 days.

Trade and bills payable balance as at the respective year end represents mainly the outstanding amounts payable to our suppliers of raw materials, mainly aluminium ingots. Due to the drop of the average selling price of our products as a result of the drop of market price of aluminium ingots in 2008 as led by the global economy turmoil, this balance decreased gradually. Cash flows used in the operating activities also decreased consequently. Therefore, the creditors' turnover days reduced from 53 days to 26 days for the years ended 31 December 2007 and 2008 respectively.

**Cash flow**

The table below summarises our Group's cash flow during the two years ended 31 December 2007 and 31 December 2008:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB' million*** | *RMB' million* |
| Net cash used in operating activities | **(30.9)** | (145.6) |
| Net cash (used in)/generated from investing activities | **(247.8)** | 213.9 |
| Net cash generated from financing activities | **347.3** | 22.0 |

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following the issuance of new shares in March 2008, we have been financing our capital expenditure and operating requirements through internally generated cash flows, net proceeds from the issuance of new shares and bank borrowings. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

**Capital expenditures**

Capital expenditure was used for acquisition of property, plant and equipment. For the year ended 31 December 2008, our Group's capital expenditures were approximately RMB133.18 million. The significant capital expenditures during the year were mainly for acquisition of plant and equipment for the Sanshui factory and payment for lease prepayments.

**Loans and borrowings**

As at 31 December 2008, our Group's loans and borrowings amounted to approximately RMB559.33 million (2007: RMB377.00 million).

**Guarantee**

Certain banking facilities amounted to RMB773,000,000 (2007: RMB385,000,000) were guaranteed by certain related parties, such banking facilities were utilised to the extent of RMB511,093,000 (2007: RMB370,000,000)

### Human resources

As at 31 December 2008, our Group employed a total of 2,285 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 31 December 2008, our Group's total expenses on the remuneration of employees was RMB56.52 million and represents 2.6% of the turnover of our Group (2007: RMB43.48 million). Our Group's emolument policies are formulated on the performance of individual employees, which will be reviewed every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, our management may also award discretionary bonuses and employee share options to employees according to the assessment of individual performance.

## PROSPECTS

We are now in the process of relocating our production operation from the production plant located at Changcheng District, Foshan City, Guangdong Province, the PRC ("Chancheng Factory") to the Sanshui factory. Our Directors expect the entire relocation process will be completed in December 2009. Upon integration of production facilities originally located at the Chancheng Factory and new production facilities to be acquired until June 2010, the Sanshui factory is expected to have an annual designed production capacity of aluminium profiles of approximately 150,000 tonnes in 2010.

2009 is a year with both challenges and opportunities for our Group. Xingfa, on the one hand, is prudently reviewing the impacts brought forth by the global financial turmoil, with careful consideration on adjusting marketing strategy as well as internal cost control. On the other hand, our Group is ready and well equipped to capture the market opportunities ahead, with the supportive policies launched by the Central Government of the PRC. It is believed that the demand for aluminium profiles is going to maintain its growth given the national policies to boost infrastructure and railway development in 2009.

Upon the completion of relocation and integration of new production equipment, our production capacity for aluminium profiles with surface finishing will be further enhanced in 2009. Better economy of scales is expected to be achieved to lower the unit cost of production. Also, a comparatively relaxed credit atmosphere in the PRC will allow our Group to intake more bank borrowings with lower interest rate to repay those bank borrowings with comparatively higher interest rate to reduce our total interest expenses in 2009.

By leveraging on our advanced R&D capability, commitment to quality, established extensive and stable sales networks in the PRC and overseas for the past 20 years, we are very confident that we can continue to deliver positive performance to our shareholders in 2009.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares on the Stock Exchange in March 2008, after deduction of related issuance expenses, amounted to approximately HK$220.97 million (approximately RMB198.75 million).

For the year ended 31 December 2008, our Group has utilised approximately RMB83.84 million for the purposes of and in connection with the acquisition of Xinggao Aluminium, details of which are set out in the announcement dated 19 June 2008. The balance of the net proceeds is temporarily placed in short-term deposits with licensed banks in Hong Kong and the PRC.

## FINAL DIVIDEND AND SPECIAL DIVIDEND

Our Directors recommended the payment of a special dividend of RMB0.029 per ordinary share and subject to the approval by our shareholders at the forthcoming annual general meeting, a final dividend of RMB0.021 for the year ended 31 December 2008 (2007: nil). The pay-out ratio (including the final dividend and the special dividend) is about 70% based on net profit in 2008. The conversion of RMB into Hong Kong dollars shall be calculated on the average price of the medium prices of the conversion of RMB into Hong Kong dollars as announced by the People's Bank of China one calendar week preceding the annual general meeting. Subject to the approval by the shareholders, the proposed final dividend is expected to be paid on or about 19 June 2009 to the shareholders whose names appear on the register of members of the Company on 3 June 2009, which is also the record date for the special dividend.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 1 June 2009 to Wednesday, 3 June 2009, both dates inclusive. During such period, no transfer of shares will be registered. In order to qualify for the proposed final and special dividends and the attendance in the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 May 2009.

## CORPORATE GOVERNANCE

The Company has fully complied with the applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

On 29 February 2008, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (in force prior to 1 January 2009) (the "Model Code") as its own code of conduct for securities transactions. Having made specific enquiry with all our Directors, all our Directors confirmed that they had complied with the required standards set out in the Model Code for the financial year ended 31 December 2008.

## REVIEW BY THE AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has an audit committee which was established with written terms of reference and is accountable to the Board and the primary duties of the audit committee include the review and supervision of our Group's financial reporting process and internal control measures.

The audit committee of the Company has reviewed the accounting principles and practices adopted by our Group and the consolidated results of our Group for the year ended 31 December 2008. The audit committee is comprised of our three independent non-executive Directors, namely, Mr. Chen Mo, Mr. Ho Kwan Yiu and Mr. Lam Ying Hung Andy. Mr. Lam serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters.

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

Our Company's shares were listed on the Stock Exchange on 31 March 2008. Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2008.

## PUBLICATION OF 2008 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xingfa.com), and the 2008 annual report of our Company containing all the information required by the Listing Rules will be despatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

On behalf of the Board of
**Xingfa Aluminium Holdings Limited**
**Luo Su**
*Chairman*

Hong Kong, 17 April 2009

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Luo Su (Chairman), Mr. Luo Riming (Chief Executive Officer), Mr. Liao Yuqing and Mr. Wang Zhihua; and three independent non-executive Directors, namely Mr. Chen Mo, Mr. Ho Kwan Yiu and Mr. Lam Ying Hung Andy.*