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# 中国忠旺控股有限公司\*

## China Zhongwang Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01333)

### ANNOUNCEMENT OF UNAUDITED QUARTERLY FINANCIAL RESULTS AND OPERATIONAL STATISTICS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2012

The Company hereby announces the unaudited major financial results and operational statistics of the Group for the nine-month period ended 30 September 2012 together with the unaudited comparative figures for the corresponding period of last year.

The Board (the “**Board**”) of directors (the “**Directors**”) of China Zhongwang Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) hereby presents the unaudited major financial results and operational statistics of the Group for the nine-month period ended 30 September 2012, together with the unaudited comparative figures for the corresponding period in 2011 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Notes	Nine months ended 30 September	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue	1	10,735,716	6,819,577
Cost of sales	2	(8,438,215)	(5,461,818)
Gross profit	3	2,297,501	1,357,759
Investment income		100,212	110,045
Other income, other gains and losses	4	98,976	8,720
Selling and distribution costs		(103,317)	(93,745)
Administrative and other operating expenses	5	(280,661)	(135,963)
Share of profit of an associate		2,587	—
Finance costs	6	(254,366)	(329,643)
Profit before taxation		1,860,932	917,173
Income tax expense	7	(474,173)	(251,663)
Profit for the period		1,386,759	665,510

Note: The condensed consolidated statement of income has been prepared in accordance with the accounting policies which conform to International Financial Reporting Standards.

\* For identification purposes only

The Group is currently principally engaged in the production of high precision, large-section and high value-added industrial aluminium extrusion products which are widely used in the transportation sector (including railway passenger and cargo carriages, metropolitan rails, automobiles, heavy trucks, vessels, aviation and aerospace), machinery and equipment and electric power engineering sectors. For the nine-month period ended 30 September 2012, the Group delivered encouraging results on various fronts, such as product research and development, product sales and overall corporate development.

The Group continued to focus on the development of hi-tech and high value-added aluminium processed products, making an all-out effort to tap the enormous market potentials of China's aluminium processing industry in line with our market outreach strategy focused primarily on China and to a lesser extent on the overseas. In the meantime, we extended our business scope to cover deep-processed products, an export driver, as well as the business of high-precision aluminium flat rolled products, a sector that offers synergies with the business of industrial aluminium extrusion products. These three core business lines will underpin the Group's model of sustainable growth and continuously sharpen our major competitive edges in the aluminium processing sector.

## 1. Revenue

	<b>Nine months ended 30 September</b>	
	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b><i>(Unaudited)</i></b>	<i>(Unaudited)</i>
Revenue:		
Industrial aluminium extrusion products	<b>9,626,481</b>	6,323,733
Construction aluminium extrusion products	<b>559,662</b>	495,844
Trading	<b>549,573</b>	—
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Total revenue	<b><u>10,735,716</u></b>	<u>6,819,577</u>

The Group's revenue increased by 57.4% to approximately RMB10,735,716,000 for the nine-month period ended 30 September 2012 from approximately RMB6,819,577,000 for the same period in 2011. The increase in the Group's revenue was primarily attributable to the increase in domestic sales, growth in sales of deep-processed products, higher average selling price of industrial aluminium extrusion products and the addition of the new trading business for the nine-month period ended 30 September 2012. Total sales volume of the Group increased to 474,701 tonnes for the nine-month period ended 30 September 2012 from 300,999 tonnes for the same period in 2011.

The Group's revenue from industrial aluminium extrusion products significantly increased by 52.2% to approximately RMB9,626,481,000 for the nine-month period ended 30 September 2012 from approximately RMB6,323,733,000 for the same period in 2011. Sales volume of our industrial aluminium extrusion products increased from 276,034 tonnes for the same period in 2011 to 403,744 tonnes for the nine-month period ended 30 September 2012. The average selling price of our industrial aluminium extrusion products went up to RMB23,843 per tonne for the nine-month period ended 30 September 2012 from RMB22,909 per tonne for the same period of 2011, which was primarily attributable to an increase in sales volume of deep-processed products which command higher gross profit margins.

To address changes in the external market environment on the basis of its research and judgment on the future development trends of the aluminium processing industry, the Group fully leveraged its existing technologies and market and customer resources in the upstream and downstream of the industry chain to develop high-margin deep-processed industrial aluminium extrusion products, in connection with which a new deep-processing center had been built and will commence operation at the end of 2012 to further increase the Group's production capacity for deep-processed products so that it will form an important profit growth point for the Group.

The Group's revenue generated from construction aluminium extrusion products increased by 12.9% to approximately RMB559,662,000 for the nine-month period ended 30 September 2012 from approximately RMB495,844,000 for the same period in 2011. Sales volume of our construction aluminium extrusion products increased to 29,762 tonnes for the nine-month period ended 30 September 2012 from 24,965 tonnes for the same period in 2011.

The average selling price of our construction aluminium extrusion products decreased to RMB18,805 per tonne for the nine-month period ended 30 September 2012 from RMB19,862 per tonne for the same period of 2011. The lower selling price was primarily caused by the decline in aluminium ingot price.

During the third quarter of 2012, the Group commenced trading business which mainly provides trading services in metallic materials such as aluminium ingot to external customers. The said products are sourced from domestic suppliers. For the nine-month period ended 30 September 2012, the Group's revenue generated from the trading business amounted to approximately RMB549,573,000 with sales volume of 41,195 tonnes.

Geographically, the Group's overseas clients mainly came from countries and regions such as the United States (the "US") and Australia. For the nine-month period ended 30 September 2012, our revenue from overseas sales amounted to approximately RMB818,553,000 (same period in 2011: approximately RMB188,038,000), representing 7.6% (same period in 2011: 2.8%) of the Group's total revenue.

Based on the shipping or delivery documents of each sales transaction, the management has categorized revenue by the location of our customers as follows:

	<b>Nine months ended 30 September</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
PRC	<b>9,917,163</b>	6,631,539
US	<b>815,059</b>	127,391
Australia	<b>486</b>	54,013
Others	<b>3,008</b>	6,634
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Total	<b>10,735,716</b>	6,819,577
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The Group has made intensive efforts to develop domestic customers since we shifted our focus back to the domestic market in 2011, and notable results have been achieved. For the nine-month period ended 30 September 2012, our revenue generated from domestic sales increased significantly to approximately RMB9,917,163,000 from approximately RMB6,631,539,000 for the same period in 2011. Our new customers included large-scale corporate groups from sectors such as transportation, electric power engineering and machinery and equipment.

Currently, the Group's product sales to the US comprise mostly deep-processed industrial aluminium extrusion products. The increase in deep-processed product sales led to a substantial growth in export sales to the US for the nine-month period ended 30 September 2012 as compared to the same period in 2011. Our export sales revenue from Australia for the nine-month period ended 30 September 2012 amounted to approximately RMB486,000, declining substantially from approximately RMB54,013,000 for the same period in 2011. It was primarily because the Group's focus on developing the domestic market had led it to apply those large machinery which had been previously used for the production of large-section aluminium extrusion products to be sold overseas to the production of products intended for domestic sales.

## **2. Cost of Sales**

Cost of sales increased by 54.5% to approximately RMB8,438,215,000 for the nine-month period ended 30 September 2012 from approximately RMB5,461,818,000 for the same period in 2011. The increase was mainly due to higher industrial aluminium extrusion product sales volume and contribution from the new trading business during the current period.

### 3. Gross Profit and Gross Profit Margin

	Nine months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Overall gross profit margin (%)	<u>21.4</u>	<u>19.9</u>

The Group typically sets prices for its products on a “cost-plus” basis. Processing charges are added as components of the final prices, taking into account the complexity of product design, level of precision of the product, size of the contract, our trading history and relationship with the customer, and the overall market condition and demand.

Our gross profit increased by 69.2% to approximately RMB2,297,501,000 for the nine-month period ended 30 September 2012 from approximately RMB1,357,759,000 for the same period in 2011. Our overall gross profit margin increased to 21.4% for the nine-month period ended 30 September 2012 from 19.9% for the same period in 2011, which was primarily attributable to our endeavors in developing deep-processed industrial aluminium extrusion products which command higher gross profit.

### 4. Other Income, Other Gains and Losses

Other income, other gains and losses increased significantly to a net gain of approximately RMB98,976,000 for the nine-month period ended 30 September 2012 from a net gain of approximately RMB8,720,000 for the same period in 2011, which was primarily attributable to the facts that: (i) there was an increase in government subsidies to approximately RMB102,467,000 for the nine-month period ended 30 September 2012 from approximately RMB12,635,000 for the same period in 2011. The aggregate amount of government subsidies for business development and technological research received by us in each period is determined and distributed by relevant PRC authorities at their sole discretion; (ii) the Group recorded foreign exchange gains of approximately RMB3,849,000 for the nine-month period ended 30 September 2012 primarily due to the impact of the rebound of US dollar exchange rate against RMB in 2012 on the Group’s deposits denominated in foreign currencies and sales settled in foreign currencies, while the Group incurred foreign exchange losses of approximately RMB18,193,000 for the same period in 2011 as a result of the impact of continuous falls in US dollar exchange rate in 2011 on the Group’s deposits denominated in foreign currencies and sales settled in foreign currencies; and (iii) our disposal of property, plant and equipment incurred losses of approximately RMB10,237,000 for the nine-month period ended 30 September 2012, which mainly consisted of the losses from discarding two machines, while we recorded gains of approximately RMB2,029,000 from disposal of property, plant and equipment for the same period in 2011.

## **5. Administrative and Other Operating Expenses**

Administrative and other operating expenses, mainly comprising land use taxes, amortization in land use right, wages, salaries and benefits, share option charges, intermediary service charges, and other charges in relation to administrative and operating activities, increased by 106.4% to approximately RMB280,661,000 for the nine-month period ended 30 September 2012 from approximately RMB135,963,000 for the same period in 2011. The increase was primarily attributable to the facts that: (i) the total land use taxes arisen in relation to the acquisitions of land use right in Panjin City, Liaoning Province and Daqing City, Heilongjiang Province, etc., amounted to approximately RMB101,252,000 for the nine-month period ended 30 September 2012, while there was no such land use tax expenses for the same period in 2011; (ii) the amortization expenses of land use right increased to approximately RMB39,437,000 for the nine-month period ended 30 September 2012 from approximately RMB7,770,000 for the same period in 2011 because of the successive acquisitions of land use right in Panjin City of Liaoning Province, Daqing City of Heilongjiang Province, and Tianjin City, etc. since 2011; and (iii) other administrative and operating related expenses increased slightly.

## **6. Finance Costs**

The Group's finance costs decreased by 22.8% from approximately RMB329,643,000 for the same period in 2011 to approximately RMB254,366,000 for the nine-month period ended 30 September 2012.

For the nine-month period ended 30 September 2012, there had been an increase in the Group's borrowing as compared to the same period in 2011, but finance costs were reduced as a result of interest capitalization.

For the nine-month period ended 30 September 2012, the interest expenses capitalized into deposits for acquisitions of property, plant and equipment amounted to approximately RMB108,662,000 (corresponding period in 2011: nil) and the relevant annualized capitalization rates ranged from 4.07% to 6.65% (corresponding period in 2011: nil).

As at 30 September 2011 and 2012, our bank loans carried average interest rates of 5.66% and 5.72% per annum, respectively; and the debentures carried interest rates ranged from 4.07% to 5.68% per annum.

## **7. Income Tax Expense**

Income tax expense of the Group increased by 88.4% to approximately RMB474,173,000 for the nine-month period ended 30 September 2012 from approximately RMB251,663,000 for the same period in 2011, which was primarily attributable to the growth in profit before taxation. The Group's effective tax rates for the nine-month periods ended 30 September 2011 and 2012 were 27.4% and 25.5%, respectively.

## 8. Development Strategy

In recent years, China has become a major global consumer of aluminium processed products. Keen demands for high-end industrial aluminium processed products from the transportation (railway passenger and cargo carriages, metropolitan subways and light rails, automobiles, heavy trucks, vessels, aviation, aerospace, etc.), machinery and equipment, electric power engineering, new energy and other sectors have created a favourable market demand environment.

In view of the above, the management of the Group has formulated the following key development strategies:

- 1) Reinforcing the leading edge of our existing principal business — industrial aluminium extrusion:
  - a) To increase our investment in equipment and optimise our equipment mix by expanding our capacity for high-end large-section industrial aluminium extrusion products;
  - b) To expand the variety and production scale of our deep-processed products to meet the demand for deep-processed products in international and domestic markets, so that the Group's overall profitability will be further enhanced; and
  - c) To strengthen our research capability in aluminium alloy smelting and casting, high-end product development and the design and manufacturing of sophisticated dies, providing technological support for the Group's future development.
- 2) Proactive and effective implementation of the project for high value-added aluminium flat rolled products to provide a new impetus for the Group's long-term development: Following a long period of research, planning and preparation, the Group's project for high value-added aluminium flat rolled products is now in the stage of implementation. We have entered into contracts for the purchase of production equipment for Phase I of the project with an annual production capacity of 1.8 million tonnes, and have acquired land sites for production through land bidding. Our next task is to commence preliminary work such as infrastructure construction and staff recruitment in a proactive and effective manner, so as to ensure that the project will be commissioned as scheduled in sound quality. Phase I of the project with an annual capacity of 1.8 million tonnes is expected to start production gradually by the end of 2014.
- 3) Responding timely to market demands and changes and increasing the intensity and depth of market development efforts: The market strategy focusing mainly on the domestic market supplemented by the overseas market will continue to be implemented. While cementing our relationships with existing customers, we will also step up our efforts to develop new customers through flexible and diversified approaches, with a view to enlarging our market shares for industrial aluminium extrusion products and deep-processed products while paving the way for future sales of high value-added aluminium flat rolled products.

The Group believes that the effective implementation of these development strategies will enable it to establish three resource-sharing and complementary core business segments, namely industrial aluminium extrusion products, deep-processed products and high value-added aluminium flat rolled products, which will further complete the Group's industry chain of aluminium processing and facilitate sustainable development with a view towards generating stronger and longer-term returns for shareholders.

## **CAUTION STATEMENT**

The Board wishes to remind investors that the above unaudited quarterly financial results and operational statistics for the nine-month period ended 30 September 2012 and the corresponding period in 2011 are based on the Group's internal information. Investors should note that undue reliance on or use of such information may cause investment risks. **Investors are advised to exercise caution when dealing in the securities of the Company.**

By order of the Board  
**China Zhongwang Holdings Limited**  
**Liu Zhongtian**  
*Chairman*

Hong Kong, 30 October 2012

As at the date of this announcement, the Board consists of:

*Executive Directors*

Mr. Liu Zhongtian, Mr. Lu Changqing, Mr. Chen Yan, Ms. Zhong Hong and Mr. Gou Xihui

*Independent non-executive Directors*

Mr. Wong Chun Wa, Mr. Wen Xianjun, Mr. Shi Ketong and Mr. Lo Wa Kei, Roy