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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 2011

The Board (the “**Board**”) of directors (the “**Directors**”) of China Zhongwang Holdings Limited (the “**Company**”) hereby presents the unaudited major financial results and operational statistics of the Company and its subsidiaries (the “**Group**”) for the nine-month period ended 30 September 2011, together with the unaudited comparative figures for the corresponding period in 2010.

The Board of the Company hereby announces the unaudited major financial results and operational statistics of the Group for the nine-month period ended 30 September 2011 together with the unaudited comparative figures for the corresponding period of last year as follows.

#### CONDENSED CONSOLIDATED STATEMENT OF INCOME

	<i>Notes</i>	Nine months ended 30 September	
		2011 <i>RMB'000</i> (Unaudited)	2010 <i>RMB'000</i> (Unaudited)
Revenue	1	6,819,577	8,799,454
Cost of sales	2	<u>(5,461,818)</u>	<u>(4,935,536)</u>
Gross profit	3	1,357,759	3,863,918
Bank interest income	4	110,045	44,320
Other income, other gains and losses	5	8,720	(10,503)
Selling and distribution costs		(93,745)	(102,765)
Administrative and other operating expenses	6	(135,963)	(121,886)
Finance costs	7	<u>(329,643)</u>	<u>(264,947)</u>
Profit before taxation		917,173	3,408,137
Income tax expense	8	<u>(251,663)</u>	<u>(849,416)</u>
Profit for the period		<u><u>665,510</u></u>	<u><u>2,558,721</u></u>

*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 principally engaged in the production of high value-added industrial aluminium processed products which are widely used in the transportation sector (including railway passenger and cargo carriages, metropolitan rails, automobiles, heavy trucks, vessels, aviation and aerospace) as well as machinery equipment and electric power engineering fields.

In 2011, we continue to focus on sectors such as transportation, machinery equipment and electric power engineering, in particular on the light-weight development towards the target of reducing energy consumption and achieving low carbon emission, aggressively sharpen our edge in the industrial aluminium extrusion product sector. In addition, by capitalizing on its existing technological strength and customer resources in the aluminium extrusion segment, the Group plans to further develop the synergistic high value-added aluminium flat rolled product business. High value-added aluminium flat rolled products, mainly consisting of medium-to-high thickness plates, high-end foils and sheets, etc., are principally applied in sectors such as aviation and aerospace, vessels, railway transportation, automobiles, machinery equipment, packaging and electronics, etc.

## 1. Revenue

	<b>Nine months ended 30 September</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue:		
Industrial aluminium extrusion products	<b>6,323,733</b>	8,397,900
Construction aluminium extrusion products	<b>495,844</b>	401,554
	<u><b>6,819,577</b></u>	<u>8,799,454</u>
Total Revenue	<u><b>6,819,577</b></u>	<u>8,799,454</u>

For the nine-month period ended 30 September 2011, the Group's revenue was RMB6,819,577,000, representing a decrease of 22.5% from RMB8,799,454,000 for the same period in 2010. The decrease in revenue was primarily attributable to substantial decline in our export sales of aluminium extrusion products destined for the US for the nine-month period ended 30 September 2011 as compared to the same period in 2010 as a result of the adverse impact of the US anti-dumping and countervailing duty investigations. Meanwhile, the decrease in revenue was also attributable to a decline in the average selling price of industrial aluminium extrusion products for domestic sales.

The Group's revenue from industrial aluminium extrusion products decreased significantly by 24.7% to RMB6,323,733,000 for the nine-month period ended 30 September 2011 from RMB8,397,900,000 for the same period in 2010. The Group's revenue from construction aluminium extrusion products of RMB495,844,000 the nine-month period ended 30 September 2011 was substantially in line with RMB401,554,000 for the same period in 2010. For the nine-month period ended 30 September 2011, the Group's average processing fee for its products decreased by 57.7%, the average selling price dropped by 29.3%, and the average purchasing price of aluminium ingots increased by 8.8% over the same period of last year.

Total sales volume of our products increased to 300,999 tonnes for the nine-month period ended 30 September 2011 from 274,727 tonnes for the same period of 2010. Sales volume of our industrial aluminium extrusion products for the nine-month period ended 30 September 2011 increased to 276,034 tonnes from 252,828 tonnes for the same period in 2010, primarily because the Group's focus on developing the domestic market had led to an increase in domestic sales of industrial aluminium extrusion products, offsetting the decline in export sales to the US as a result of the adverse impact of the US antidumping and countervailing duty investigations. The Group's sales of construction aluminium extrusion products increased to 24,965 tonnes for the nine-month period ended 30 September 2011 from 21,899 tonnes for the same period of 2010.

Geographically, the Group's overseas clients mainly came from countries and regions such as the US and Australia. For the nine-month period ended 30 September 2011, our sales revenue from overseas was approximately RMB188,038,000 (corresponding period in 2010: RMB4,450,272,000), representing 2.8% (corresponding period in 2010: 50.6%) 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>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
People's Republic of China ("PRC")	<b>6,631,539</b>	4,349,182
United States of America ("US")	<b>127,391</b>	3,063,702
Australia	<b>54,013</b>	1,352,309
Others	<b>6,634</b>	34,261
	<hr/>	<hr/>
Total	<b><u>6,819,577</u></b>	<u>8,799,454</u>

For the nine-month period ended 30 September 2011, our revenue generated from domestic sales increased significantly to RMB6,631,539,000 from RMB4,349,182,000 for the same period in 2010, which was primarily attributable to the Group's active expansion of its market share in the Chinese domestic market. Our new customers included large state-owned enterprises from sectors such as transportation, electric power engineering and machinery equipment.

As a result of the impact of the US anti-dumping and countervailing duty investigations, our export sales to the US for the nine-month period ended 30 September 2011 were substantially lower than those for the same period in 2010. Our export sales to Australia for the nine-month period ended 30 September 2011 decreased over the same period in 2010, 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 10.7% to RMB5,461,818,000 for the nine-month period ended 30 September 2011 from RMB4,935,536,000 for the same period in 2010. The increase was mainly due to higher sales volume of industrial aluminium extrusion products and increases of aluminium ingot prices for the current period.

## 3. Gross Profit and Gross Profit Margin

	Nine months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
Overall gross profit margin (%)	<u>19.9</u>	<u>43.9</u>

The Group typically sets prices for its products on a “cost-plus” basis. Processing charges are added as components of 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 decreased by 64.9% to RMB1,357,759,000 for the nine-month period ended 30 September 2011 from RMB3,863,918,000 for the same period in 2010. Our overall gross profit margin decreased to 19.9 % for the nine-month period ended 30 September 2011 from 43.9% for the same period in 2010, which was primarily attributable to a drop in contribution from export sales, which commanded higher gross profit margins, as a percentage of our overall profit as well as decreases in average processing fees for industrial aluminium extrusion products sold domestically.

## 4. Bank Interest Income

Bank interest income increased by 148.3% from RMB44,320,000 for the same period in 2010 to RMB110,045,000 for the nine-month period ended 30 September 2011, which was primarily attributable to an increase in the balance of our bank deposits and higher deposit interest rate. For the nine-month periods ended 30 September 2010 and 2011, our bank deposits carried an average interest rate of 0.37% and 0.80% per annum, respectively.

As at 30 September 2011, the Group’s bank balances and cash amounted to approximately RMB19,472,098,000 (31 December 2010: approximately RMB17,263,372,000).

## 5. Other Income, Other Gains and Losses

Other income, other gains and losses recorded a net gain of approximately RMB8,720,000 for the nine-month period ended 30 September 2011 against a net loss of RMB10,503,000 for the same period in 2010, which was primarily attributable to: (i) a substantial decrease in export sales for the nine-month period ended 30 September 2011, leading to a drop of our foreign exchange losses to RMB18,193,000 for the nine-month period ended 30 September 2011 from RMB46,193,000 for the same period in 2010. The Group’s foreign exchange losses were

primarily attributable to the impact of the continuously falling US dollar exchange rate on the Group's deposits denominated in foreign currencies and sales settled in foreign currencies; (ii) a decrease in government subsidies to RMB12,635,000 for the nine-month period ended 30 September 2011 from RMB32,774,000 for the same period in 2010. The aggregate amount of government subsidies for research and development received by us in each period is determined and distributed by relevant PRC authorities at their sole discretion; and (iii) gains from disposal of scrap materials and consumables increased to RMB10,608,000 for the nine-month period ended 30 September 2011 from RMB47,000 for the same period in 2010.

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

Administrative and other operating expenses mainly comprise wages, salaries and benefits, depreciation charges of office equipment, share option charges, intermediary service charges and other charges in relation to administrative and operating activities. Administrative and other operating expenses increased by 11.5 % to RMB135,963,000 for the nine-month period ended 30 September 2011 from RMB121,886,000 for the same period in 2010, which was primarily attributable to the facts that (i) for the nine-month period ended 30 September 2011, the charges for the issue of unsecured debentures of RMB1,200,000,000 amounted to RMB10,800,000. We did not have this kind of expenses for the same period in 2010; and (ii) the non-cash charges arising from share options calculated at fair value increased to RMB24,701,000 for the nine-month period ended 30 September 2011 from RMB24,114,000 for the same period in 2010.

## **7. Finance Costs**

Finance costs increased by 24.4% to RMB329,643,000 for the nine months ended 30 September 2011 from RMB264,947,000 for the same period in 2010, which was mainly due to the increase in loans and debentures for our general operations as well as an increase in average loan interest rate during the period. For the nine months ended 30 September 2010 and 2011, the Group's bank loans carried an average interest rate of 4.60% and 5.66% per annum, respectively.

## **8. Income Tax Expense**

Our income tax expense decreased by 70.4% to RMB251,663,000 for the nine-month period ended 30 September 2011 from RMB849,416,000 for the same period in 2010, which was primarily attributable to the decline in profit before taxation. Our effective tax rates for the nine-month periods ended 30 September 2010 and 2011 were 24.9% and 27.4%, respectively. Our effective tax rate for the nine-month period ended 30 September 2011 was slightly higher than the same period last year because the proportion of the withholding income tax, which a wholly-owned subsidiary incorporated in Hong Kong had to pay on its interest income earned from loans to another wholly-owned subsidiary established in China, to the Group's income tax in the current period was slightly higher than the same period last year.

## **9. Major Transactions**

As disclosed in the Company's announcement dated 17 October 2011, in order to further the research, development and production of high-end aluminium flat rolled products which are synergistic with our industrial aluminium extrusion business, Liaoning Zhongwang Aluminium Co., Ltd. and Panjin Zhongwang Aluminium Co., Ltd., each a wholly-owned subsidiary of the

Company, entered into an agreement on 17 October 2011 with China Machinery & Equipment (HK) Co., Ltd., CEIEC (Hong Kong) Limited and Great Dynasty HK Co., Ltd., respectively, for the purchase of equipment for production of aluminium flat rolled products. The purchase of equipment under these equipment purchase agreements (including smelting and casting lines, hot continuous rolling mills, cold rolling mills and aluminium foil rolling mills to be imported from Germany and the US etc.) is for implementation of our plan to enter into the market sector of high-end aluminium flat rolled products. The designed capacity of the above equipment upon installation is approximately 1.8 million tonnes. Our planned overall designed capacity of aluminium flat rolled product project is approximately three million tonnes. Production is scheduled to commence in stages in 2014 and full production capacity is expected to be reached by 2018.

## **10. Development Strategies**

China has become the largest consumer of industrial aluminium extrusion and aluminium alloy products in the world in recent years. It has pressing demand for high-end industrial aluminium processed products generated from transportation sectors such as railway passenger and cargo carriage, metropolitan rail, automobile, heavy truck, vessel, aviation and aerospace as well as from the fields of machinery equipment, electric power engineering and new energy, etc., thus creating a favorable environment of market demand. In view of the tremendous potential for market development, we will further consolidate our four-in-one industry leading strengths, namely aluminium alloy smelting and casting technology, die design and manufacturing, manufacturing equipment and new product development, actively develop deep processed industrial aluminium extrusion products, and extend our industrial chains to high value-added aluminium flat rolled product business. Meanwhile, the Group intends to drive ongoing business growth and solidify its competitive positions via the following major development strategies, laying concrete foundations for long-term development:

1. Focusing on the PRC market and Strengthening marketing: With rapid development of its economy, China has rising demand for high-end products. The Group is redeploying its resources to increase its market shares in such major domestic sectors as transportation, machinery equipment and electric power engineering, etc.. In addition, the Group will implement a strategy that positions overseas markets in a supplementary role, by producing and exporting different types of processed aluminium products to overseas in order to build a diversified income base;
2. Strengthening research and development and developing deep-processed products: The Group will continue to enhance its aluminium alloy smelting and casting and die development and manufacturing capabilities with a view to improving its high-end product development capabilities. In addition, the Group will continue to develop deep-processing technologies for industrial aluminium extrusion products, so as to expand its product offerings to include different types of processed aluminium products as well as add more value to its products;

3. Extending industrial chains and developing high value-added aluminium flat rolled products: the Group will leverage its leading strengths in aluminium alloy smelting and casting as well as product research and development, capitalize on its existing business network and customer resources to further develop the synergistic business in high value-added aluminium flat rolled products.

While the Group will remain committed to the research and development and manufacturing of industrial aluminium extrusion products for the transportation, machinery equipment and electric power engineering sectors, we will optimize production capacity of high value-added products by technologically-advanced equipment as well as enhance production and deep-processing capacity of high value-added aluminium flat rolled products by our leading R&D capacity. More efforts will be put into the expansion of domestic and overseas markets for high-end aluminium products with the support of our strong capital. The Board and management of the Company are convinced that the major development strategies outlined above will help achieve sustainable growth and create higher value 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 2011 and the corresponding period in 2010 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, 28 October 2011

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