



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



## 2011 Interim Results Announcement

August 2011

# Disclaimers

These materials and the subsequent discussion are not an offer for sale of any securities of China Hongqiao Group Limited (the “Company”). The distribution of these materials in certain jurisdictions may be restricted by law and therefore persons into whose possession of these should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction.

Certain financial information contained herein has not been audited, comforted, confirmed or otherwise covered by a report by independent accountants. In addition, past performance of the Company cannot be relied on as a guide to future performance.

These materials and the subsequent discussion contain statements about future events, projections, forecasts and expectations that are forward-looking statements. Any statement in these materials that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Company makes no representation on the accuracy and completeness of any of the forward-looking statements, and, except as may be required by applicable law, assumes no obligations to supplement, amend, update or revise any such statements or any opinion expressed to reflect actual results, changes in assumptions or in the Company’s expectations, or changes in factors affecting these statements. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk.



**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

**5. Future Plans**

**6. Q&A**



## Major achievements

1



**Successful listing on SEHK**

2



**Significant growth in revenue and profits**

3



**Strengthened production capacity and market position**



## Successful listing on SEHK

China Hongqiao (“CHQ”) was successfully listed on the Main Board of SEHK on 24 March 2011

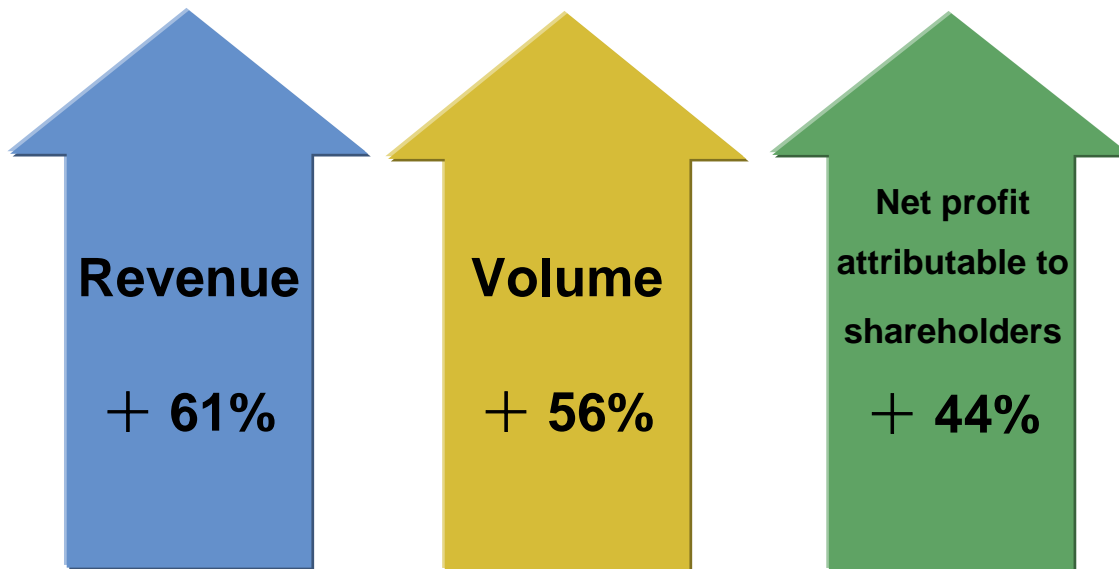
Market cap\*: HKD 35.6 billion

- ✓ Enhanced international profile and market position
- ✓ Strengthened financial position to accommodate future expansion
- ✓ Optimized shareholder base

\* Based on closing price on 12 August 2011



## Significant growth in revenue, sales volume and profits



### Major reasons:

- Strategically located within an end-to-end aluminum industry cluster, resulting in overall cost savings
- Proven cost structure advantage with large scale, highly efficient captive power plant and self-constructed power grid, as well as cost-competitive and stable alumina supply
- Significant increase in sales volume and average selling price (ASP) driven by vigorous industry demand
- Expanded production capacity to successfully capture market opportunities



## Strengthened production capacity and market position

- CHQ has successfully become the 4<sup>th</sup> largest aluminum producer in China

### Chinese aluminum producers by capacity as of 30 June 2011

| Rank     | Company                         | Capacity (ktpa) | Ownership background         |
|----------|---------------------------------|-----------------|------------------------------|
| 1        | CHALCO                          | 4,560           | State owned enterprise       |
| 2        | China Power Investment Corp.    | 2,135           | State owned enterprise       |
| 3        | Shandong Xinfra                 | 1,800           | Private company              |
| <b>4</b> | <b>China Hongqiao Group Ltd</b> | <b>1,481</b>    | <b>Private company</b>       |
| 5        | Henan Shenhua Group             | 900             | Local state owned enterprise |
| 6        | Henan Yulian Energy Group       | 850             | Private company              |
| 7        | Yichuan Power Industry Group    | 840             | Local state owned enterprise |
| 8        | East Hope Baotou Rare Earth     | 800             | Local state owned enterprise |

Source: Antaika



**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

**5. Future Plans**

**6. Q&A**

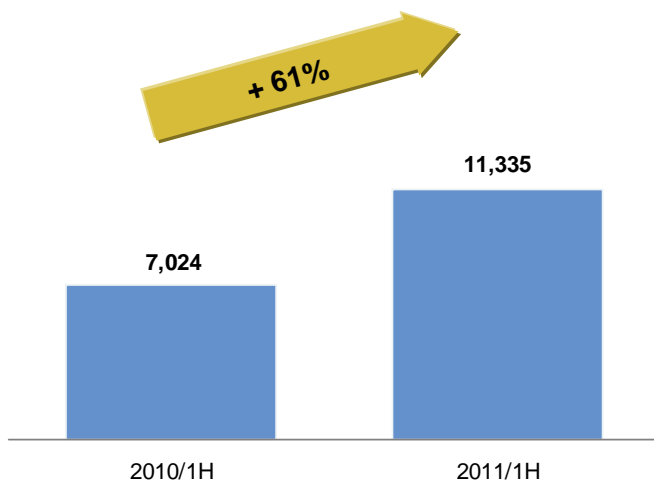




# Significant growth in revenue, sales volume and net profit

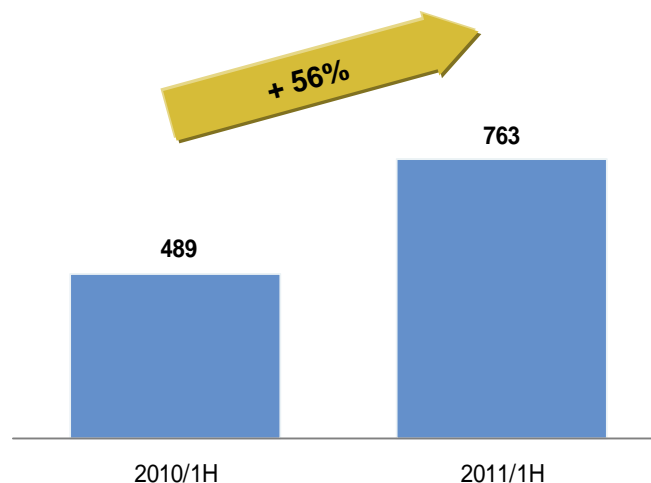
## Revenue

■ Revenue (RMB mn)



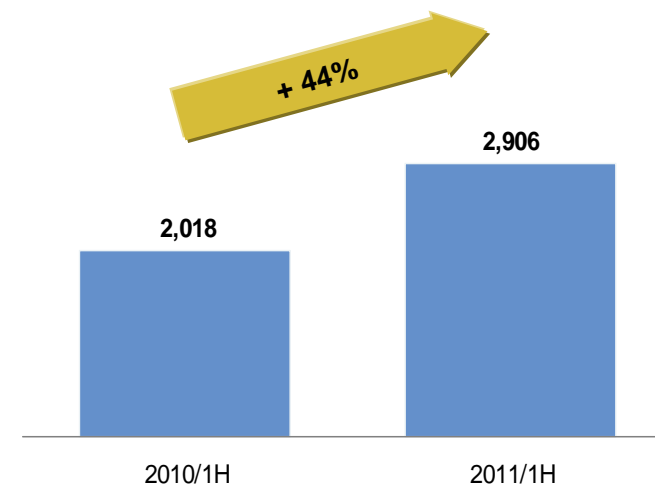
## Sales volume

■ Sales volume ('000 tons)



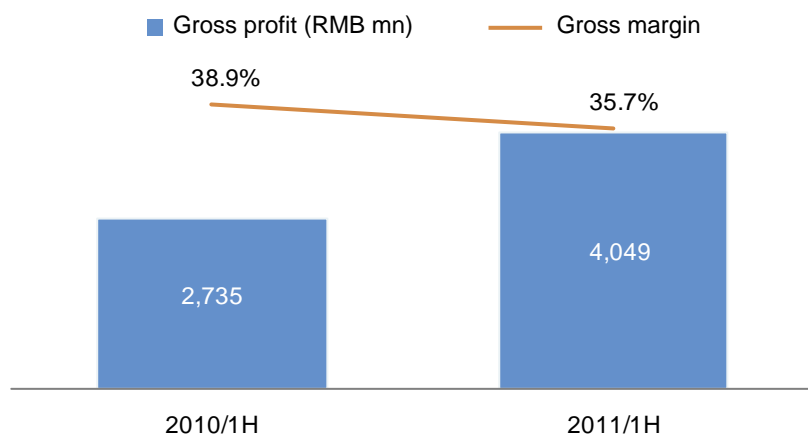
## Net profit attributable to shareholders

■ Net profit attributable to shareholders (RMB mn)

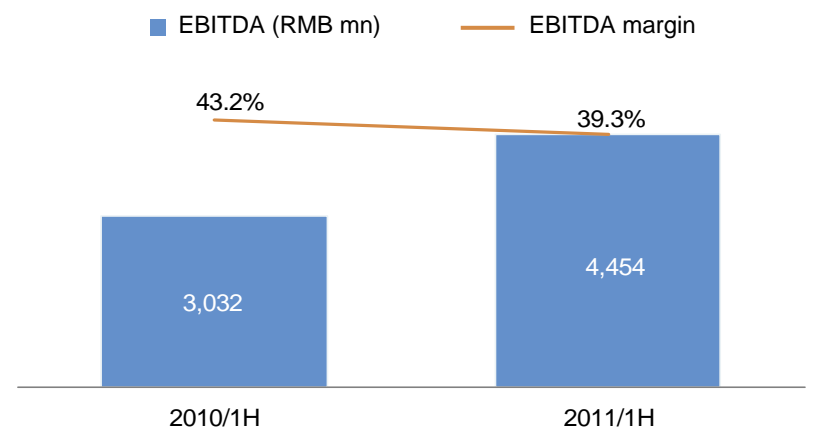


# Profitability

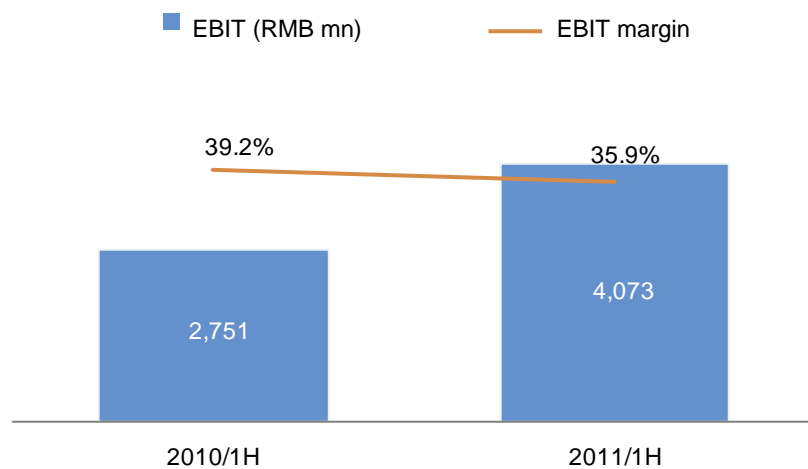
## Gross profit<sup>1</sup>



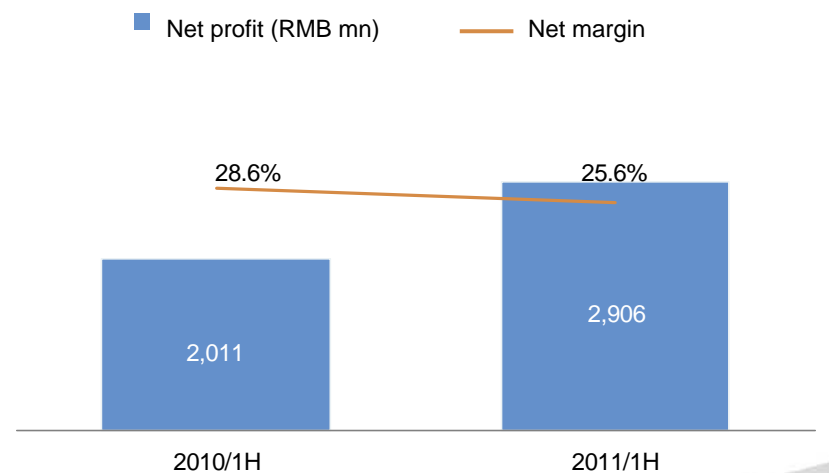
## EBITDA<sup>1</sup>



## EBIT<sup>1</sup>



## Net profit<sup>1</sup>

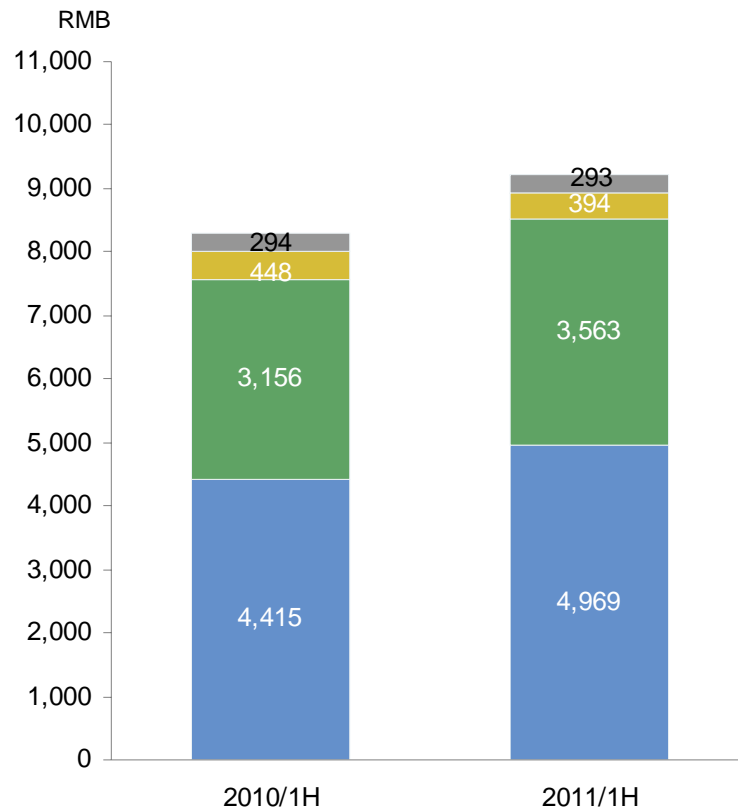


<sup>1</sup> From continuing operations

# Optimal cost structure guarantees long-term competitiveness

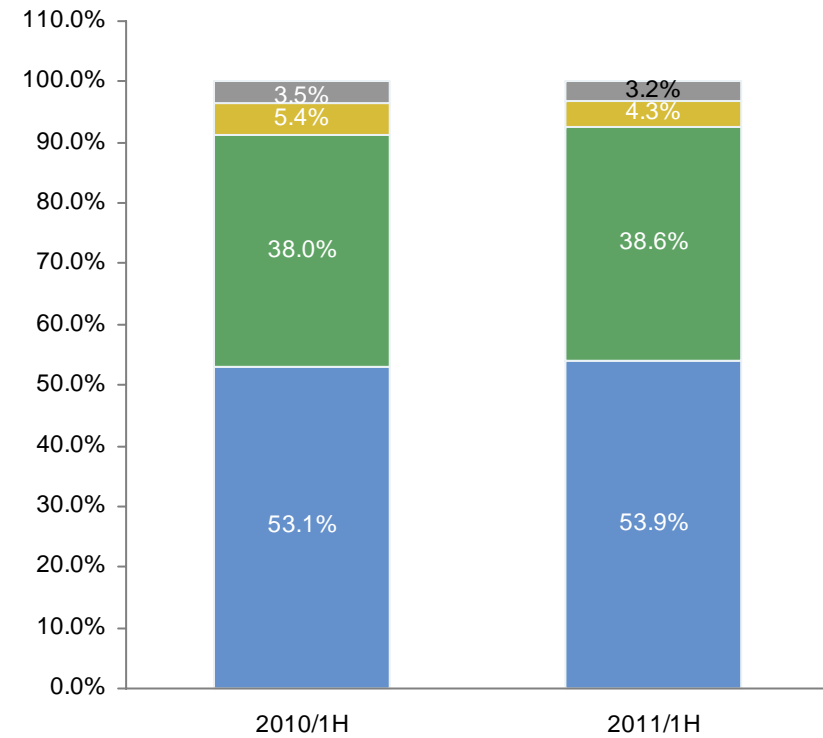
## COGS per ton breakdown

■ Raw materials ■ Energy costs ■ Depreciation ■ Others



## COGS per ton breakdown (%)

■ Raw materials ■ Energy costs ■ Depreciation ■ Others



## Prudent financial management

| RMB mn   | As of 30 Jun 30 2011 |       |              |
|--|----------------------|-------|--------------|
|  | 2011                 | 2010  | Change (%)   |
| Cash & cash equivalents                        | 7,575                | 1,039 | + 629.1      |
| Total capital (equity book value + total debt) | 20,089               | 9,586 | + 109.6      |
| EBITDA / Interest expense (times)              | 30.9                 | 43.3  | - 12.4 times |
| Debt / EBITDA (times)                          | 0.52                 | 0.74  | - 0.22 times |
| Debt / Total capital                           | 23%                  | 47%   | - 24 p.p.    |
| Trade receivables turnover days (day)          | 0.1                  | 0.6   | - 0.5 day    |
| Trade payables turnover days (day)             | 30                   | 14    | + 16 days    |
| Inventory turnover days (day)                  | 33                   | 31    | + 2 days     |



**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

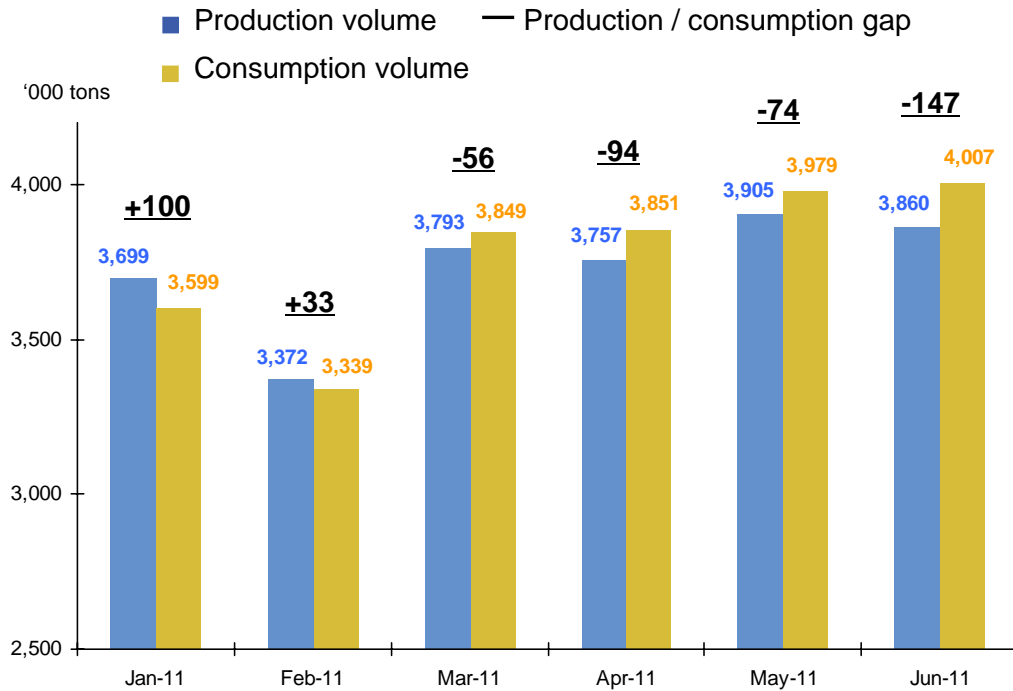
**5. Future Plans**

**6. Q&A**

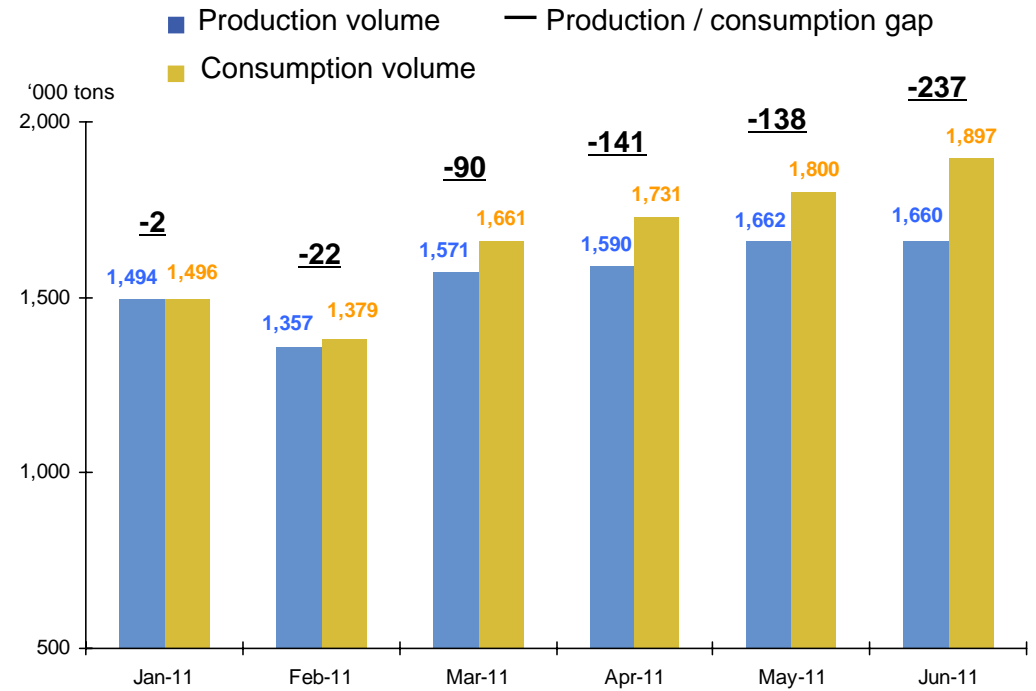


# Current gap between production and consumption of primary aluminum in China and the world

## Global production & consumption of primary aluminum



## China's production & consumption of primary aluminum

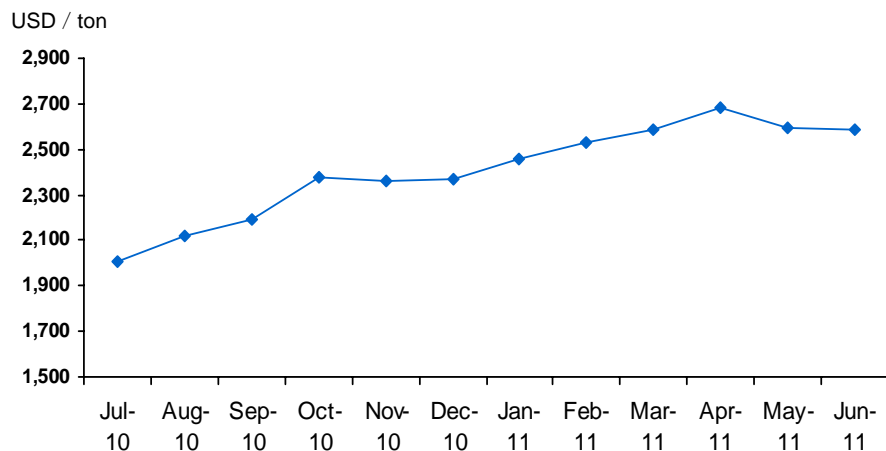


Source: Antaike

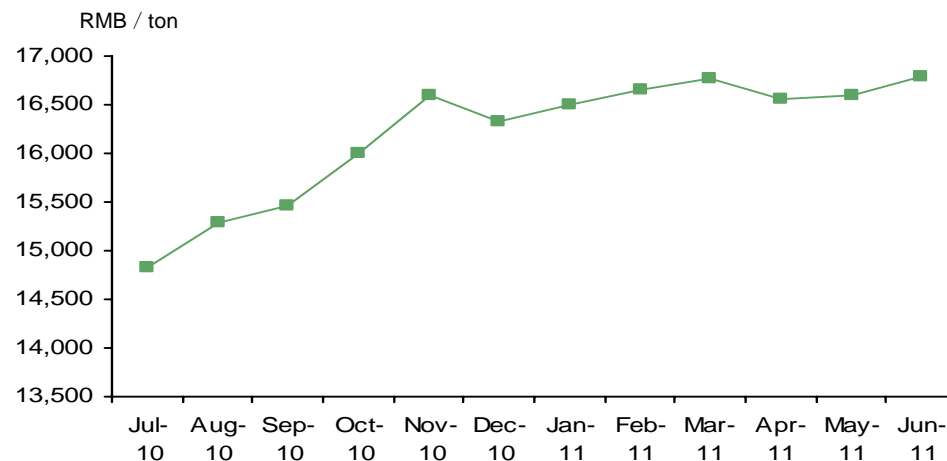


# Aluminum prices in 1H 2011

## London Metal Exchange (LME)



## Shanghai Futures Exchange (SHFE)



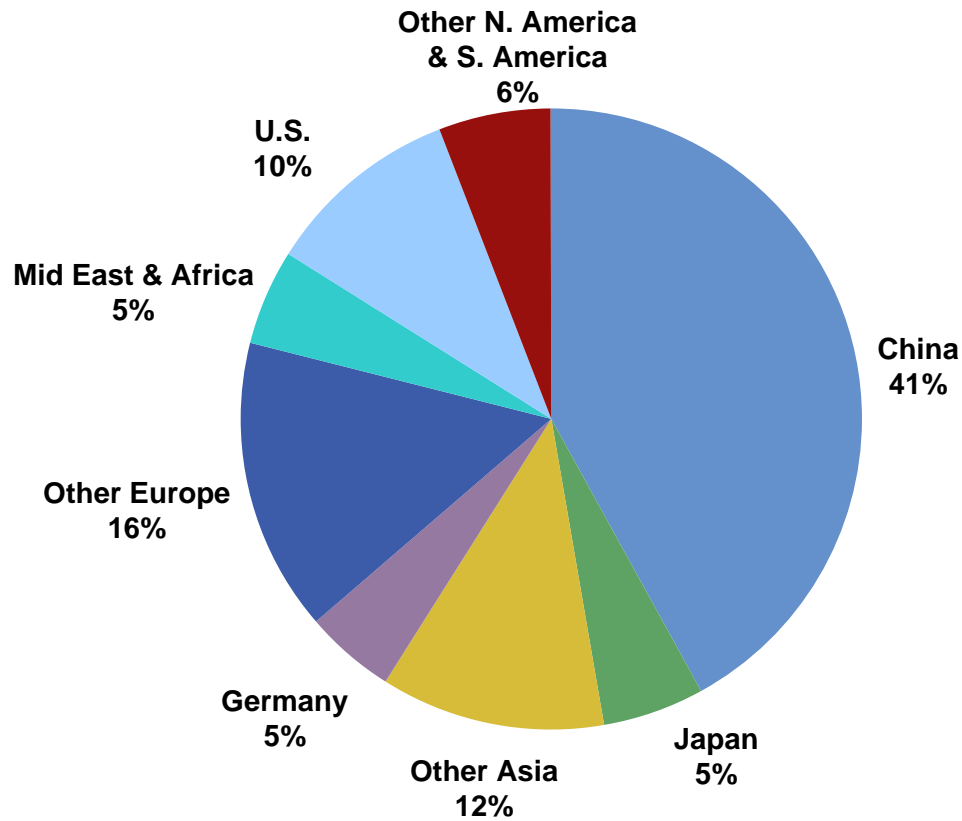
Source: LME, SHFE, Antaike

- Aluminum prices have remained strong since 2H 2010 as a result of the vigorous market demand
- ASP of CHQ's aluminum products increased by 5.5%, from RMB13,655 / ton in 1H 2010 to RMB14,405 / ton in 1H 2011

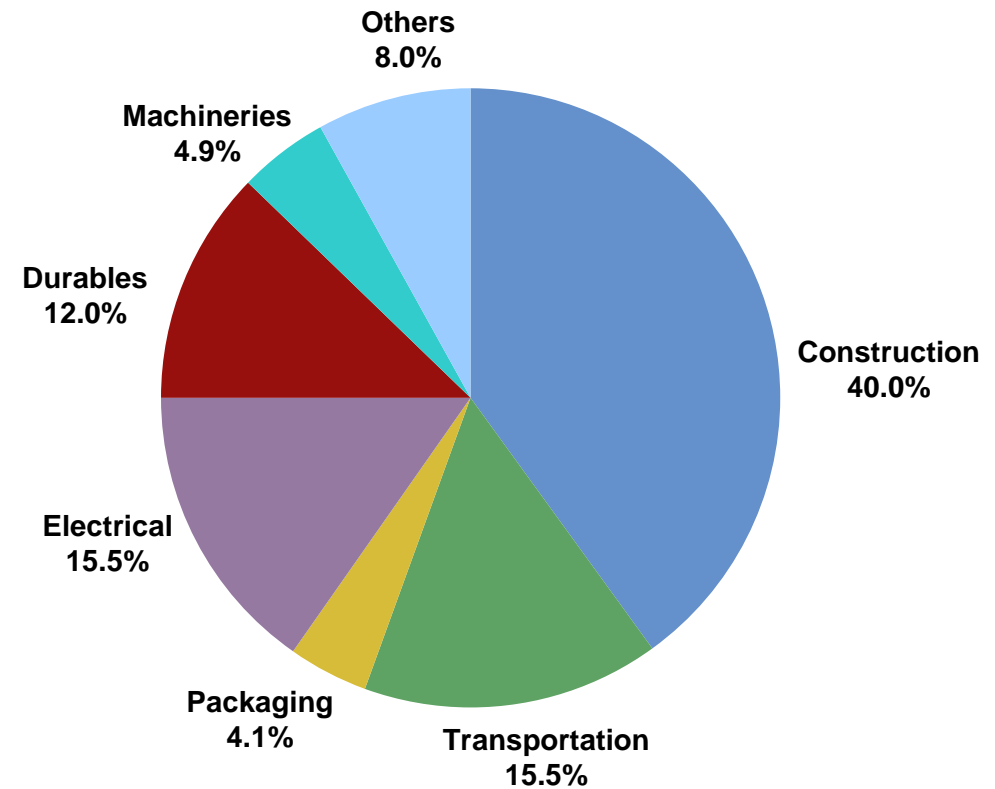


# China continues to drive world consumption

Global primary aluminum consumption (2010)



China's primary aluminum consumption breakdown – by industry (2010)



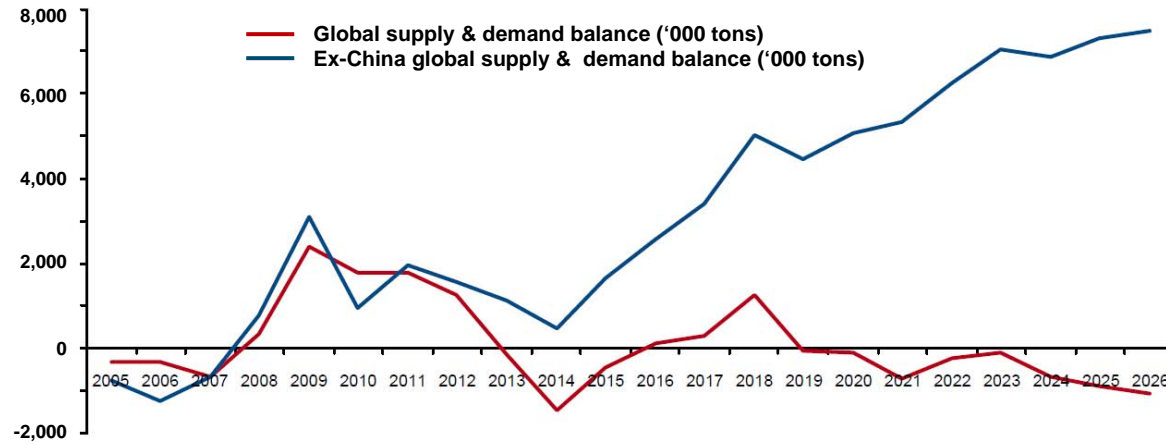
Source: Antaika



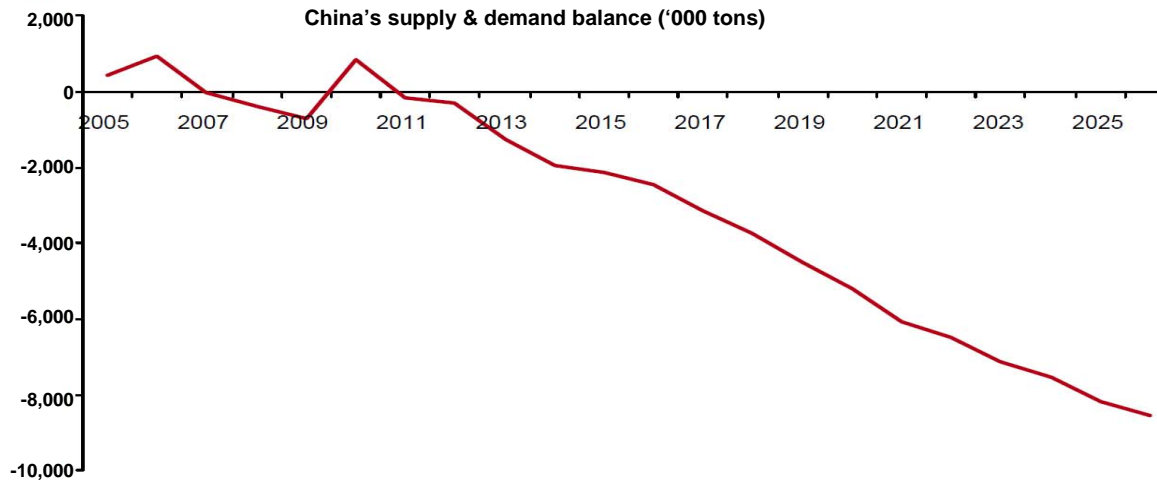


# Widening gap between supply and demand

## Ex-China supply growing ahead of demand



## The unbalanced supply and demand in China



Source: China Zhongjing



**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

**5. Future Plans**

**6. Q&A**



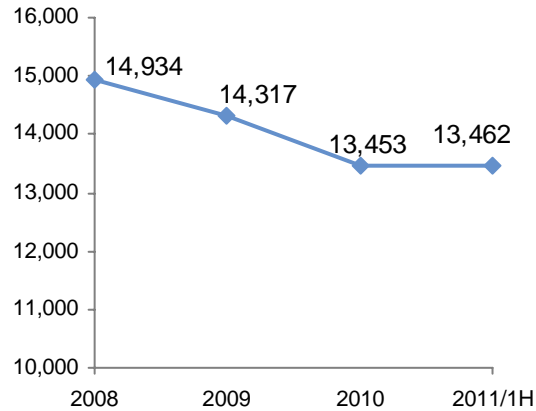
## Revenue breakdown – by product

|                    |         | Aluminum products | Steam     | TOTAL  |
|--------------------|---------|-------------------|-----------|--------|
| Revenue (RMB mn)   | 1H 2011 | 10,987            | 348       | 11,335 |
|                    | 1H 2010 | 6,673             | 351       | 7,024  |
| % of total revenue | 1H 2011 | 96.9              | 3.1       | 100    |
|                    | 1H 2010 | 95.0              | 5.0       | 100    |
| Volume (ton)       | 1H 2011 | 766,019           | 2,623,080 |        |
|                    | 1H 2010 | 496,973           | 2,645,040 |        |
| GP margin (%)      | 1H 2011 | 36.0              | 26.7      | 35.7   |
|                    | 1H 2010 | 39.1              | 35.3      | 38.9   |

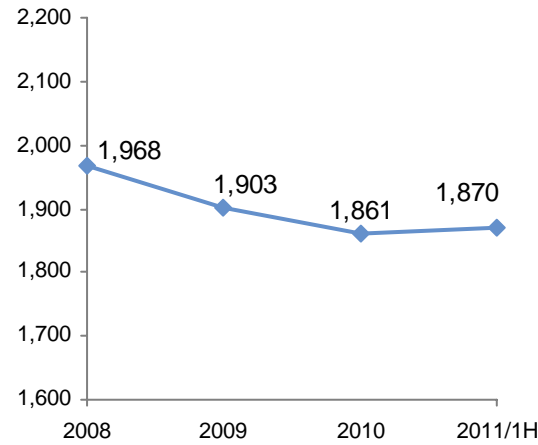


# Continuous improvement of operational performance and investment in technology/R&D

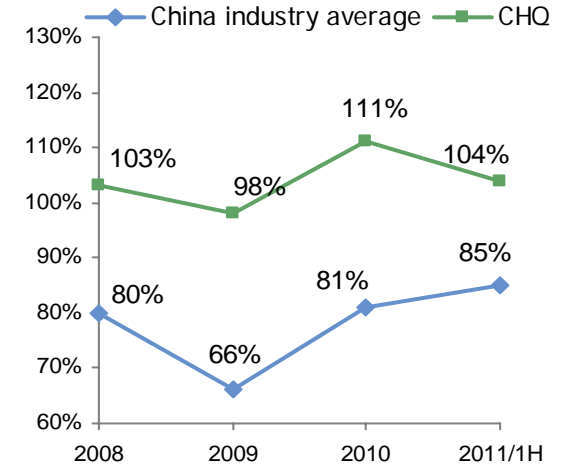
Electricity consumption per unit of aluminum production (kWh/ton)



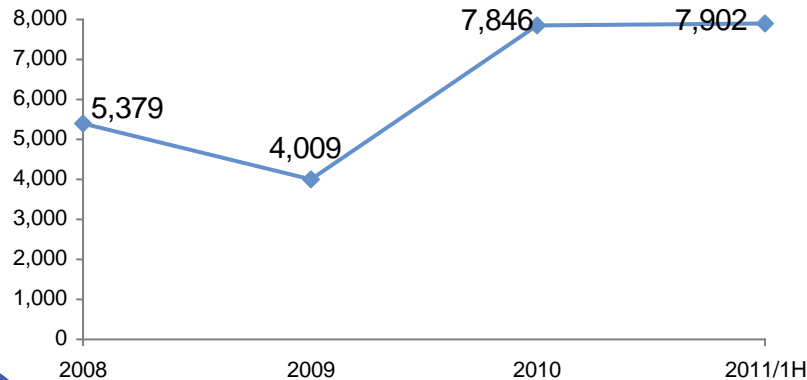
Alumina consumption per unit of aluminum production (kg/ton)



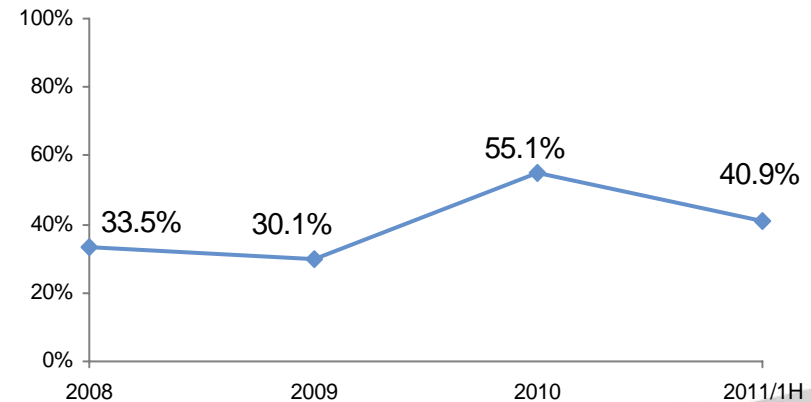
Capacity utilization rate



Annualized effective utilization hours of captive power plant



Self-sufficiency of electricity demand



# Low cost electricity supply – large scale, highly efficient captive power plant & self-constructed power grid

Captive power plant



External electricity supply from Gaoxin



1,080 MW thermal power plant

- Self-generated electricity in 1H 2011 ~RMB0.22/kWh, significantly cheaper than procured from state grid
- 40.9% energy self-sufficient for 1H 2011
- Capex planned to further increase self-sufficiency

Private self-constructed power grid

- Connects CHQ's three manufacturing facilities with external supplier, Gaoxin
- Long term contract @ RMB0.29/kWh<sup>1</sup>
- Purchased 88% of Gaoxin's output in 1H 2011

Resulting in electricity cost saving of RMB2,150 / ton at RMB26 cents/kWh (excluding VAT),  
16 cents/kWh<sup>2</sup> lower than China average

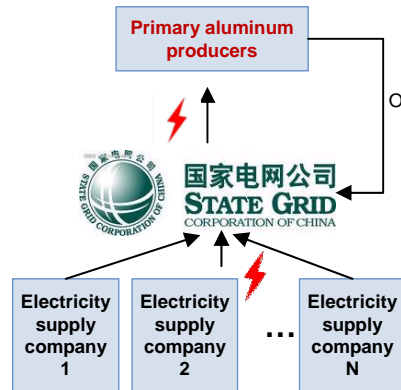
<sup>1</sup> Assuming that the base price of coal with a heat value of 5,000 kilocalorie per kilogram is RMB700 per ton (inclusive of VAT), which is subject to adjustment through negotiation if the price fluctuation of coal exceeds 20%

<sup>2</sup> Source: Antaiko; 2011 data

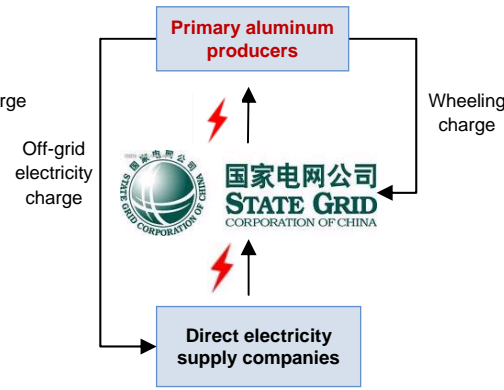


# CHQ's unique external power supply model

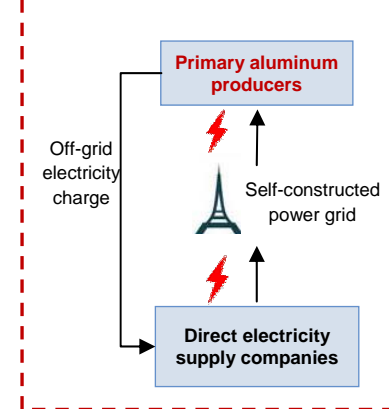
1. Directly purchase from state grid



2. Direct supply agreement + wheeling charge to state grid



3. Direct supply agreement + Self-owned power grid



CHQ's unique power supply model

|   |  |   |  |
|---|--|---|--|
| Method of external electricity purchase | On-grid electricity charge   | Direct supply agreement + Wheeling charge to state grid   | Direct supply agreement + Self-owned power grid  |
| Direct electricity supply agreement     | No   | Yes   | <b>Yes</b>   |
| Self-owned power grid                   | No   | No  | <b>Yes</b>   |
| Features                                | <ul style="list-style-type: none"> <li>Direct purchase from state grid in accordance with stipulated pricing policies</li> </ul> | <ul style="list-style-type: none"> <li>Have large scale power generating companies nearby with abundant supply</li> </ul> | <ul style="list-style-type: none"> <li><b>Have large scale power generating companies nearby with abundant supply</b></li> <li><b>Private power grid and electricity supply network</b></li> </ul> |
| Entry barrier                           | Low  | Medium  | <b>High</b>  |
| Price                                   | Minimum price ~ RMB0.55/kWh <sup>1</sup> ; price controlled by government  | Over RMB0.405/kWh <sup>1</sup> (wheeling cost of RMB0.15-0.20/kWh <sup>1</sup> required)                                  | ~ RMB0.25-0.30/kWh <sup>1</sup> ; price mainly determined by electricity cost & mutual business agreement; relatively low policy risks   |

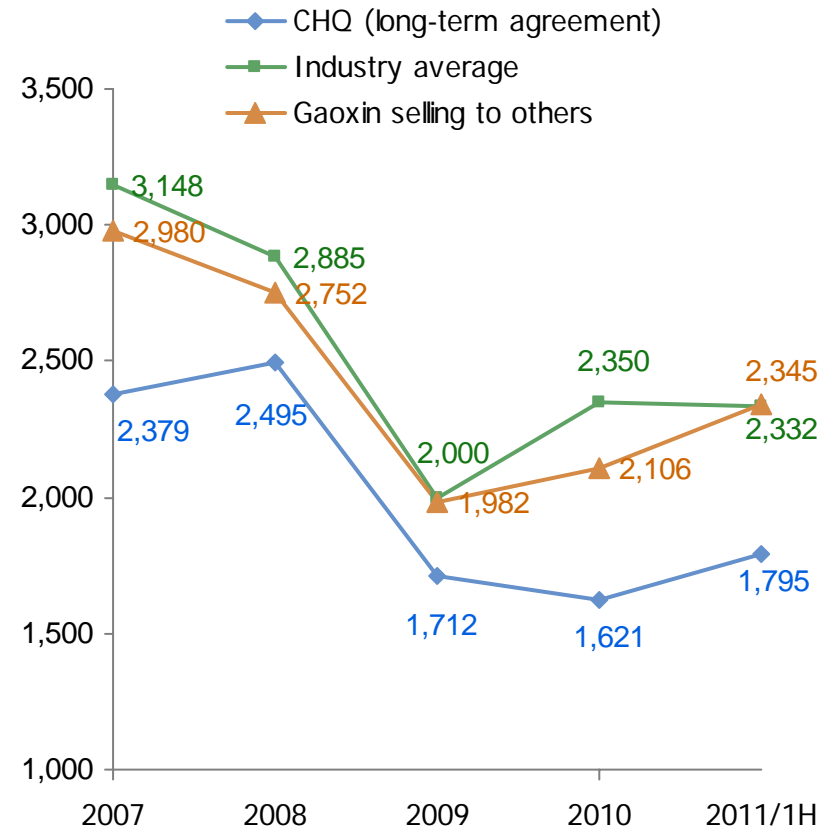
<sup>1</sup>Forecasts of management



# Reliable and cost-competitive alumina supply

- **Strong partnership with key alumina supplier — Binzhou Gaoxin**
  - Consumes 60% of its alumina output
  - Purchased 1,449kt alumina in 1H 2011
  - Long-term contract
- **Competitive costs**
  - Approx. RMB500/t below the price at which Gaoxin sells to others
- **Geographic proximity**
  - Saves freight, packaging, loading and offloading costs
- **Reliable alumina supply**
  - Gaoxin's long-term contract for importing bauxite
  - CHQ's well-planned policy to secure stable alumina supply in long-term

Alumina cost comparison (RMB/t)<sup>1</sup>



<sup>1</sup> Average market price based on Antaike data; VAT excluded



**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

**5. Future Plans**

**6. Q&A**





# Solid underlying fundamentals to drive growth

## Key industry trends in China

### Urbanization & Infrastructure Development

- Critical stage for China's rapid urbanization to reach the level of moderately developed countries. Increase in per capital income will lead to rapid domestic consumption growth.
- Urbanization rate in China is expected to reach 54.7% by 2015. Growing at an average of 18.87mn, newly added urban population amounts to 94.35mn. Urbanization will drive an increase in average living area by 566mn sq.m annually, creating a demand of 370,000 tons of aluminum for housing construction (assuming 30 sq.m of living area per capita); 350mn people will migrate to the cities by 2025.
- China's total construction area amounts to 50bn sq.m, of which 10% needs to be refurbished each year, demanding 3.3mn tons of aluminum products p.a.
- 36mn units of affordable housing to be developed in 5 years (10mn to be started in 2011), generating a demand of 1.66mn tons of aluminum (assuming each unit is 70 sq.m. in size)

### Transportation

- Largest auto and rail transportation market in the world.
- Auto production reached 18.26mn tons in 2010, with aluminum usage per vehicle of 127.5kg, which is 12% lower than that in US (145kg), and 13% lower than Japan and Germany.
- Auto production is expected to reach over 30mn vehicles by 2020. Assuming China's aluminum usage per vehicle will reach the current level of developed countries (i.e. 150kg), aluminum consumption of China's auto industry will amount to 4.5mn tons, almost doubling that in 2010 (2.35mn tons).

### Substitute for other metals

- Aluminum replacing copper in the power industry and appliance production.
- Replacing steel due to lighter weight (e.g. components in cars).

### Others

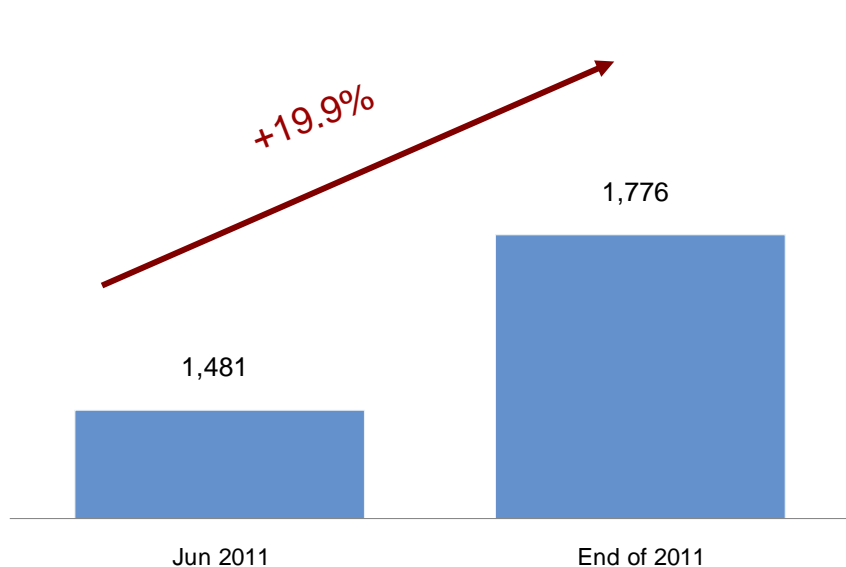
- Growing aluminum demand by packaging industry (e.g. beverage packaging), accounting for 4% of total processed aluminum in downstream markets.

Source: China Zhongjing

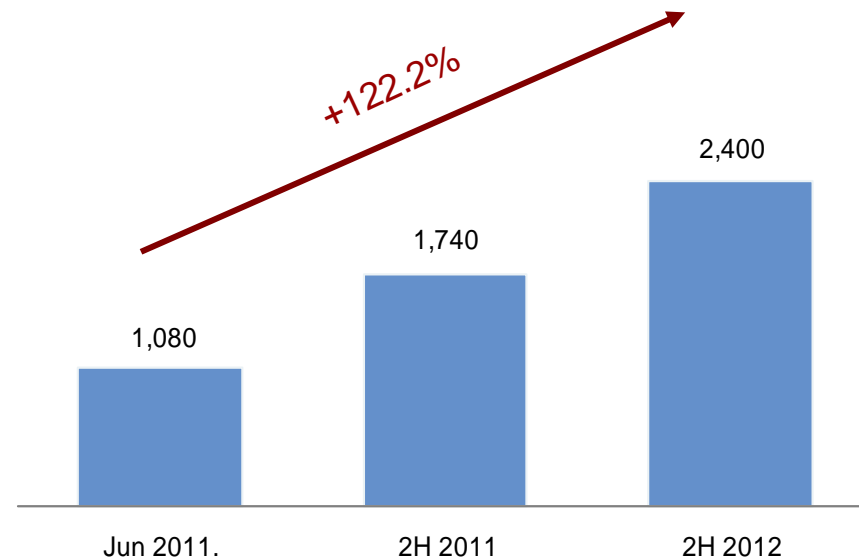


# Expanding production capacity and electricity production facilities to further enhance market penetration and cost structure

Production capacity expansion (ktpa)



Captive power plant production capacity expansion (MW)



- New primary aluminum capacity of 300ktpa at Zoupin and Weiqiao production base in 2H 2011
- Aluminum downstream processing with capacity of 30ktpa at Binzhou production base
- Capex: approximately RMB3.8bn

- New captive thermal power plant with capacity 1,320 (4 x 330) MW
- Capex: approximately RMB4.6bn
- Expected to increase self-sufficiency to approx. 65-70% based on estimated electricity consumption requirement of 1,776ktpa aluminum production capacity



## Extending its reach into upstream and downstream markets



Coal



Alumina



Bauxite



Feedstock for  
aluminum foil

- Generate plans to enter the upstream resources market (e.g. bauxite, alumina and coal), in order to secure stable supply of raw materials
- Further enhance profitability and market competitiveness by prudently extending into the downstream market
- Aluminum downstream processing is expected to commence in 2H 2012, with an aggregate designed annual production capacity of 30,000 tons



# Strategies



中国宏桥集团有限公司

1

Increase market penetration through capacity expansion

2

Expand captive power plant to enhance self-sufficiency and stability of electricity

3

Optimize cost structure via continuous R&D improvements

4

Extend into upstream and downstream markets

**CHQ mission:  
To become the  
strongest  
manufacturer of  
integrated  
aluminum  
products in China**



中国宏桥集团有限公司

**1. Major Achievements**

**2. Financial Review**

**3. Industry Overview**

**4. Operations Review**

**5. Future Plans**

**6. Q&A**

