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## **Hunan Nonferrous Metals Corporation Limited\***

**湖南有色金属股份有限公司**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2626)**

### **ANNOUNCEMENT**

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **SUMMARY**

Reference is made to the Company's announcements dated 17 August, 1 August, 18 July and 13 July 2006.

The Board is pleased to announce that Zhuye Torch, a non wholly-owned subsidiary of the Company, the tradable A-shares of which are listed on the Shanghai Stock Exchange in the PRC, proposes to issue 100,000,000 new tradable Zhuye Torch A-Shares.

In accordance with the Agreement between Zhuye Torch and Zhuzhou, Zhuzhou, a non wholly-owned subsidiary of the Company, agreed to subscribe for not less than 77,000,000 new Zhuye Torch A-Shares, representing not less than 77% of the total new Zhuye Torch A-Shares to be issued, approximately 18.01% of the existing issued share capital of Zhuye Torch and approximately 14.60% of the enlarged issued share capital of Zhuye Torch in consideration of not lower than RMB7.95 per tradable Zhuye Torch A-Share. The actual consideration per tradable Zhuye Torch A-Share has not been finalized and will be determined on an arm's length basis between Zhuye Torch and Zhuzhou after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. Zhuye Torch is also a non wholly-owned subsidiary of the Company. The Consideration will be satisfied by a transfer of the Assets all currently held by Zhuzhou to Zhuye Torch and cash (if applicable) upon Completion.

Zhuye Torch also proposes to issue not more than 23,000,000 new Zhuye Torch A-Shares, representing not more than 23% of the total new Zhuye Torch A-Shares to be issued, approximately 5.38% of the existing issued share capital of Zhuye Torch and approximately 4.36% of the enlarged issued share capital of Zhuye Torch in consideration for cash of not lower than RMB7.95 per Zhuye Torch A-Share to other institutional investors in the PRC. Such institutional investors and their respective ultimate beneficial owners are Independent Third Party(ies). The actual consideration per tradable Zhuye Torch A-Share has not been finalized and will be determined between Zhuye Torch and the relevant institutional investors after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. In any event, the actual consideration per tradable Zhuye Torch A-Share under the Zhuzhou Share Subscription and the Proposed Institutional Investors Share Issuance will be the same.

Zhuzhou is a company organized under the laws of the PRC, and is owned by the Company as to an approximately 63.314% equity interest and COAMC as to approximately 36.686% equity interest, and is therefore a subsidiary of the Company. Furthermore, as a result of the Voting Arrangements, Zhuye Torch was consolidated by the Group in preparation of its financial information starting from 1 June 2005 and hence has been regarded as a subsidiary of the Company. Shenzhen Bangxin, being one of the promoters of the Company, currently holding approximately 1.65% shares in the Company and a connected person as defined in the Listing Rules is held as to approximately 89% interest by COAMC, which in turn holds approximately 36.686% interest in Zhuzhou. As a result, each of Shenzhen Bangxin, COAMC, Zhuzhou, and Zhuzhou's subsidiaries (including Zhuye Torch) is the Company's connected persons under Rules 14A.11 of the Listing Rules. Accordingly, among other things, Zhuzhou Share Subscription, being an intra-group transaction, however constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Furthermore, the Zhuzhou Share Subscription also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. It involves both (i) an acquisition of the Assets by Zhuye Torch (or a disposal of the Assets by Zhuzhou) and (ii) an issue of the Zhuye Torch A-Shares by Zhuye Torch (or subscription for the Zhuye Torch A-Shares by Zhuzhou). In essence, it is an intra-group transaction and is expected to result in a decrease of the Company's attributable interest in the Assets and an increase in the Company's attributable interest in Zhuye Torch. The size of such an intra-group transaction should be calculated by reference to the higher of the decrease in the Company's interest in the Assets, revenue and profits attributable to the Assets and the increase in the Company's attributable interest in Zhuye Torch before and after Completion. Given that the relevant percentage ratios of change in the Company's interest in the Assets arising from Zhuzhou Share Subscription calculated in accordance with Rule 14.07 of the Listing Rules are higher and are more than 5% but less than 25%, the Zhuzhou Share Subscription is subject to reporting, announcement and Independent Shareholders' approval requirement. Please note that the actual consideration in relation to the disposal of the Assets by Zhuzhou has not been finalized and will be determined on an arm's length basis between Zhuye Torch and Zhuzhou after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. However, the Company expects that the actual consideration will not be large enough to make any of the relevant percentage ratios exceed 25% since it is the current intention of Zhuye Torch and Zhuzhou that the actual consideration will not be significantly different from the price of RMB7.95. In the event that Zhuye Torch and Zhuzhou cannot agree on the actual consideration per tradable Zhuye Torch A-Share, the Zhuzhou Share Subscription will not proceed. Furthermore, in the event that the actual percentage ratios exceed 25%, the Company will take necessary action to ensure compliance with the Listing Rules.

On the other hand, the Proposed Institutional Investors Share Issuance does not constitute connected transactions and does not require the approval of shareholders of the Company under the Listing Rules.

A circular, including the notice of EGM, recommendation of Evolution Watterson, the independent financial advisers, appointed by the Company and the recommendations of the Independent Board Committee regarding the Zhuzhou Share Subscription and the Agreement, will be dispatched to Shareholders as soon as practicable.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Zhuye Torch A-Shares.

## **BACKGROUND**

Reference is made to the Company's announcements dated 17 August, 1 August, 18 July and 13 July 2006.

The principal business of Zhuzhou is the manufacturing, processing and smelting of lead.

The principal business of Zhuye Torch is the manufacturing, processing, smelting and sale of zinc.

Zhuye Torch, a non wholly-owned subsidiary of the Company, the tradable A-shares of which are listed on the Shanghai Stock Exchange in the PRC, proposes to issue 100,000,000 new tradable Zhuye Torch A-Shares.

Zhuye Torch entered into the Agreement on 17 August 2006 pursuant to which Zhuzhou agreed to subscribe for not less than 77,000,000 of new Zhuye Torch A-Shares, representing not less than 77% of the total new Zhuye Torch A-Shares to be issued, approximately 18.01% of the existing issued share capital of Zhuye Torch and approximately 14.60% of the enlarged issued share capital of Zhuye Torch in consideration of not lower than RMB7.95 per Zhuye Torch A-Share. The Group (including Zhuzhou) has not subscribed for any shares in Zhuye Torch since the listing of the Company.

Zhuye Torch also proposes to issue not more than 23,000,000 new Zhuye Torch A-Shares, representing not more than 23% of the total new Zhuye Torch A-Shares to be issued, approximately 5.38% of the existing issued share capital of Zhuye Torch and approximately 4.36% of the enlarged issued share capital of Zhuye Torch in consideration for cash of not lower than RMB7.95 per Zhuye Torch A-Share to institutional investors in the PRC. Such institutional investors and their respective ultimate beneficial owners are Independent Third Party(ies).

A separate announcement containing details of the Proposed Institutional Investors Share Issuance will be issued as soon as practicable once the agreement with the institutional investors have been signed.

## **AGREEMENT**

Details of the Zhuzhou Share Subscription are set out below:

Date: 17 August 2006

Parties: Zhuye Torch as the issuer  
Zhuzhou as the subscriber

Zhuzhou Share Subscription: Zhuye Torch agreed to issue and Zhuzhou agreed to subscribe for not less than 77,000,000 new Zhuye Torch A-Shares. The maximum number of Zhuye Torch A-Shares to be issued and allotted is 100,000,000. The shares to be allotted and issued to Zhuzhou will be subject to a lock-up period of 36 months commencing from the date of the issue pursuant to the CSRC's regulations.

Consideration:

The Consideration is not lower than RMB7.95 per Zhuye Torch A-Share. Such indicative level of the Consideration was determined after arm's length negotiations between Zhuye Torch and Zhuzhou and was calculated by reference to the average closing price of tradable Zhuye Torch A-Shares for the 20 day-period prior to the board meeting of Zhuye Torch on 13 July 2006 being RMB7.95. In other words, the minimum consideration in aggregate for 77,000,000 new Zhuye Torch A-Shares amounts to RMB612,150,000.

The minimum consideration of RMB7.95 per Zhuye Torch A-Share represents a premium of approximately 5.86% and 9.05% respectively over RMB7.51 being the closing price of the trading day and RMB7.29 being the average closing price of five trading days preceding to the date of the Agreement being 17 August 2006. The actual consideration per tradable Zhuye Torch A-Share has not been finalized and will be determined on an arm's length basis between Zhuye Torch and Zhuzhou after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. It is the current intention of Zhuye Torch and Zhuzhou that the actual consideration will not be significantly different from the price of RMB7.95. In the event that Zhuye Torch and Zhuzhou cannot agree on the actual consideration per tradable Zhuye Torch A-Share, the Zhuzhou Share Subscription will not proceed.

Payment Terms:

The Consideration will be satisfied by way of transfer of Assets and in cash (if applicable) upon the Completion.

Assets shall comprise the following:

- (a) Lead Smelting System;
- (b) Deconcentration System;
- (c) Power System;
- (d) Electricity System;
- (e) Water Treatment System;
- (f) 90% equity interest in Shanghai Zhuye;
- (g) 70% equity interest in Torch Metal;
- (h) 90% equity interest in Foshan Zhuye;
- (i) 99% equity interest in Zhuye Technology; and
- (j) 1.404% equity interest in Western Mining,

all of which are currently held by Zhuzhou. The details of the above Assets are set out in the section headed "Assets" in this announcement below.

The Net Asset Value was valued at RMB623,498,000 as at the Assets Valuation Day being 31 March 2006 by a PRC firm of certified public accountants and such valuation has been approved by Hunan SASAC. The Net Asset Value shall be adjusted by reference to the audited Net Asset Value of the Assets on the Assets Audit Day and in accordance with the formula as set out in the section headed "Assets" in this announcement below.

Zhuye Torch and Zhuzhou agreed that:

- (i) If the adjusted Net Asset Value exceeds the Consideration, the balance shall be paid by Zhuye Torch in cash to Zhuzhou within 90 days upon the transfer of the Assets; or
- (ii) If the adjusted Net Asset Value falls below the Consideration, the balance shall be paid by Zhuzhou to Zhuye Torch in cash within 90 days upon the transfer of the Assets.

Conditions precedent:

Completion is conditional upon the following:

- (a) The relevant decision-making bodies of Zhuzhou having approved all matters in connection with or arising out of the Zhuzhou Share Subscription by duly passing the relevant resolutions;
- (b) Zhuye Torch having convened a board meeting at which resolutions shall have been duly passed by its directors to approve all matters in connection with or arising out of the Zhuzhou Share Subscription;
- (c) Zhuye Torch having convened a general meeting at which resolutions shall have been duly passed by its shareholders to approve all matters in connection with or arising out of the Zhuzhou Share Subscription;
- (d) Hunan SASAC having granted permission for the transfer of the Assets involved in Zhuzhou Share Subscription and for the results derived from the valuation report of the Assets;
- (e) CSRC having granted permission to Zhuye Torch for the Zhuzhou Share Subscription; and
- (f) CSRC having granted exemption to Zhuzhou in respect of the acquisition obligations arising out of the Zhuzhou Share Subscription.

It is the Company's understandings that the relevant decision-making bodies of Zhuzhou as referred to in condition precedent (a) above include the shareholders' meeting of the Company, the board of the Company, the shareholders' meeting of Zhuzhou, the board of Zhuzhou and the COAMC's consent.

Conditions precedent (b)-(d) have already been satisfied.

Completion:

Following the satisfaction of the conditions precedent set out hereinabove.

## **ASSETS**

As mentioned above, the Consideration for the Zhuzhou Share Subscription will be satisfied by way of transfer of Assets by Zhuzhou to Zhuye Torch and in cash (if applicable) upon Completion.

Assets shall comprise the following:

- (a) Lead Smelting System which adopts the conventional sinter-blast furnace method to produce raw lead. The raw lead undergoes electrolysis to produce electrolytic lead and anode mud. After refining, the electrolytic lead is converted into lead ingots, lead alloy, and anode mud to recover silver and other precious metals;
- (b) Deconcentration System which is an integrated recycling center of Zhuzhou undertaking the recycling of residue generated from lead smelting of Zhuzhou and zinc smelting of Zhuye Torch and the refining of precious metals including silver, indium, gold, copper and bismuth. This system enhances the utilization rate of nonferrous metals, reduces waste discharge and production efficiency;
- (c) Power System which is used to supply gas by its 12 gas furnaces, supply water (including water for production, drinking water, soft water and recycled water), balance steam by its 4 furnaces, and supply high pressure and low pressure air by its compressor;
- (d) Electricity System which is used for processing alternating current and direct current for Zhuzhou and Zhuye Torch;
- (e) Water Treatment System which is used for purifying water emitted from Zhuzhou and Zhuye Torch and remitting part of the purified water to the production system;
- (f) 90% equity interest in Shanghai Zhuye. Shanghai Zhuye is current owned by Zhuzhou as to approximately 90% equity interest and Zhuye Asset Operation Co. (wholly-owned by HNG) as to approximately 10% equity interest. Shanghai Zhuye is principally engaged in the trading of metal ingots;
- (g) 70% equity interest in Torch Metal. Torch Metal is current owned by Zhuzhou as to approximately 70% equity interest and Sanxiang Metals Group Co. Ltd. being an Independent Third Party as to approximately 30% equity interest. Torch Metal is principally engaged in the trading of metal ingots;
- (h) 90% equity interest in Foshan Zhuye. Foshan Zhuye is current owned by Zhuzhou as to approximately 90% equity interest and Zhuye Asset Operation Co. (wholly-owned by HNG) as to approximately 10% equity interest. Foshan Zhuye is principally engaged in the trading of metal ingots;
- (i) 99% equity interest in Zhuye Technology. Zhuye Technology is current owned by Zhuzhou as to approximately 99% equity interest and Zhuye Quanxin (a subsidiary of the Company) as to approximately 1% equity interest. Zhuye Technology is principally engaged in technology development, transfer and consultancy service; and
- (j) 1.404% equity interest in Western Mining. Western Mining is currently owned by Zhuzhou as to approximately 1.404% equity interest, by Western Mining Industry Company Limited (西部礦業有限公司) as to about approximately 24.96% equity interest and by other 13 corporate shareholders as to the remaining interest. Western Mining is principally engaged in the trading of lead, zinc mines, nonferrous metal products, precious metal and its by-products.



Profit/loss attributable to the Assets for the two years ended 31 December 2004 and 31 December 2005 are as follows:

Company	2004 Profit/(loss) (RMB) <sup>^</sup>		2005 Profit/(loss) (RMB) <sup>*</sup>	
	Before taxation and extraordinary items	After taxation and extraordinary items	Before taxation and extraordinary items	After taxation and extraordinary items
Shanghai Zhuye	374,572.32	374,572.32	318,156.61	213,164.90
Torch Metal	3,211,210.20	3,211,210.20	2,225,801.15	2,225,801.15
Foshan Zhuye	676,200.83	338,837.60	876,842.60	755,792.92
Zhuye Technology	(31,551.06)	(31,551.06)	92,147.04	(400,325.35)
Western Mining	5,861,980.00	4,855,032.00	9,491,040.00	8,143,200.00

<sup>^</sup> according to the audited accounts of the respective companies for the year ended 31 December 2004 prepared under PRC GAAP

<sup>\*</sup> according to the audited accounts of the respective companies for the year ended 31 December 2005 prepared under PRC GAAP

	2004 Profit/(loss) (RMB) <sup>#</sup>		2005 Profit/(loss) (RMB) <sup>+</sup>	
	Before taxation and extraordinary items	After taxation and extraordinary items	Before taxation and extraordinary items	After taxation and extraordinary items
Lead Smelting System, Deconcentration System, Power System, Electricity System and Water Treatment System	114,469,571	114,469,571	75,457,152	68,754,239

<sup>#</sup> according to the audited financial statements of Zhuzhou for the year ended 31 December 2004 prepared under PRC GAAP

<sup>+</sup> according to the audited financial statements of Zhuzhou for the year ended 31 December 2005 prepared under PRC GAAP

Based on the audited financial statements of Zhuzhou as at 31 March 2006, the net asset value of the Assets amounted to RMB492,707,300. The Net Asset Value was valued at RMB623,498,000 as at the Assets Valuation Day being 31 March 2006 by a PRC firm of certified public accountants, which has been approved by Hunan SASAC. The Net Asset Value shall further be adjusted by aggregating the adjustment amount which is calculated by reference to the audited net asset value of the Assets on the Assets Audit Day and in accordance with the following formula:

Adjustment Amount = audited net asset value of the Assets on the Assets Audit Day – audited net asset value of the Assets on the Assets Valuation Day – the amount of depreciation, amortisation and other differences arising from the increase/decrease between the net asset value of the Assets on the Assets Valuation Day and the Assets Audit Day.

The Company is unable to identify the original acquisition/investment cost of the Assets by Zhuzhou because Zhuzhou together with Zhuzhou Smelting Factory, the predecessor of Zhuzhou, have operated for about 50 years and has developed and invested in its business throughout many years. Since the day of Completion and the Adjustment Amount has not been ascertained, a profit or loss arising from the transfer of the Assets involved in the Zhuzhou Share Subscription cannot be ascertained as at the date of this announcement. On the assumptions that the Adjustment Amount amounted to approximately RMB12,569,000 and the Completion took place on 30 June 2006, the Company expects to make a loss of approximately RMB93,940,926 under the International Financial Reporting Standards as a result of the Zhuzhou Share Subscription. The expected loss is based on the estimate that the Company's aggregate interest (direct and indirect) in the Assets will decrease, whereas the Company's aggregate interest (direct and indirect) in Zhuye Torch will increase. The combined effect would result in the net asset value in the enlarged entity (i.e. Zhuye Torch including the Assets) attributable to the Group being decreased by approximately RMB93,940,926. The Company will make further announcement as soon as practicable in the event that the Company becomes aware that the expected loss is materially different from the actual gain or loss to be booked into the account of the Company.

## **PROPOSED INSTITUTIONAL INVESTORS SHARE ISSUANCE**

Zhuye Torch also proposes to issue not more than 23,000,000 new Zhuye Torch A-Shares, representing not more than 23% of the total new Zhuye Torch A-Shares to be issued, approximately 5.38% of the existing issued share capital of Zhuye Torch and approximately 4.36% of the enlarged issued share capital of Zhuye Torch in consideration for cash of not lower than RMB7.95 per Zhuye Torch A-Share to institutional investors in the PRC. Such institutional investors and their respective ultimate beneficial owners are Independent Third Party(ies). The price floor in relation to the Zhuye Torch A-Shares to be issued to institutional investors is calculated by reference to the average closing price of tradable Zhuye Torch A-Shares for the 20 day-period prior to the board meeting of Zhuye Torch on 13 July 2006 being RMB7.95. The minimum consideration of RMB7.95 per Zhuye Torch A-Share represents a premium of approximately 5.86% and 9.05% respectively over RMB7.51 being the closing price of the trading day and RMB7.29 being the average closing price of five trading days preceding to the date of the Agreement being 17 August 2006. The actual consideration per tradable Zhuye Torch A-Share has not been finalized and will be determined between Zhuye Torch and the relevant institutional investors after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. In any event, the actual consideration per tradable Zhuye Torch A-Share under the Zhuzhou share Subscription and the Proposed Institutional Investors Share Issuance will be the same.

In other words, the minimum consideration in aggregate for 23,000,000 new Zhuye Torch A-Shares are RMB182,850,000. The shares to be allotted and issued to the institutional investors will be subject to a lock-up period of 12 months commencing from the date of the issue pursuant to the CSRC's regulations. No agreement has yet been entered into between Zhuye Torch and the potential institutional investors. After signing the agreement relating to the Proposed Institutional Investors Share Issuance, further announcement will be made by the Company.

## **COMPLETION**

Completion of the Zhuzhou Share Subscription will take place following the satisfaction of the conditions precedent as set out in the Agreement. It is the current intention of Zhuye Torch that the completion of the Proposed Institutional Investors Share Issuance will take place at the same time. The Proposed Institutional Investors Share Issuance are conditional on completion of Zhuzhou Share Subscription whilst Zhuzhou Share Subscription is not conditional on completion of the Proposed Institutional Investors Share Issuance.



After the Completion:

- (1) Zhuzhou will continue to be treated as a subsidiary of the Company as Zhuzhou is owned by the Company as to approximately 63.314% equity interest and COAMC as to approximately 36.686% equity interest.
- (2) The Assets will be owned by Zhuye Torch instead of Zhuzhou.
- (3) Assuming 77,000,000 Zhuye Torch A-Shares are issued to Zhuzhou, the Company's direct beneficial interest in Zhuye Torch will decrease from approximately 4.04% to approximately 3.43%, Zhuye Quanxin's direct beneficial interest in Zhuye Torch will decrease from approximately 6.06% to approximately 5.14% and Zhuzhou's direct beneficial interest in Zhuye Torch will increase from approximately 30.44% to approximately 41.06% following the Completion. Assuming 77,000,000 and 23,000,000 Zhuye Torch A-Shares are issued to Zhuzhou and the potential institutional investors respectively, the Company's direct beneficial interest in Zhuye Torch will decrease from approximately 4.04% to approximately 3.28%, Zhuye Quanxin's direct beneficial interest in Zhuye Torch will decrease from approximately 6.06% to approximately 4.91% and Zhuzhou's direct beneficial interest in Zhuye Torch will increase from approximately 30.44% to approximately 39.27% following the Full Completion.

Please refer to the charts below showing the Group structure before and after Completion of Zhuzhou Share Subscription only. It is intended that the Shareholders' Agreement and the Voting Arrangements will continue to be in full force and effect after the Completion and the Full Completion so that the Company will effectively control approximately 59.89% and 57.27% of the voting rights at any shareholders' meetings of Zhuye Torch respectively and Zhuye Torch will remain a subsidiary of the Company following the Completion and Full Completion.

The table below sets out the shareholdings of Zhuye Torch (i) before Full Completion, (ii) after Full Completion (assuming 77,000,000 and 23,000,000 Zhuye Torch A-Shares are issued to Zhuzhou and the potential institutional investors respectively) and (iii) after Zhuzhou Share Subscription only but before the Proposed Institutional Investors Share Issuance (assuming 77,000,000 Zhuye Torch A-Shares are issued to Zhuzhou only):

	Before Full Completion		After Zhuzhou Share Subscription only but before the Proposed Institutional Investors Share Issuance		After Full Completion	
	Number of shares held	Percentage of shareholdings (approximate figures)	Number of shares held	Percentage of shareholdings (approximate figures)	Number of shares held	Percentage of shareholdings (approximate figures)
Zhuzhou* SME Service Centre of Hunan Province* (湖南省中小企業 服務中心)	130,123,017	30.44%	207,123,017	41.06%	207,123,017	39.27%
	34,535,838	8.08%	34,535,838	6.85%	34,535,838	6.55%
Zhuye Quanxin* (a subsidiary of the Company)	25,924,154	6.06%	25,924,154	5.14%	25,924,154	4.91%
Zhuzhou Municipal State Asset Investment & Operations Co., Ltd. (株洲市國有資產投資 經營有限公司)	25,701,398	6.01%	25,701,398	5.09%	25,701,398	4.87%
The Company*	17,282,769	4.04%	17,282,769	3.43%	17,282,769	3.28%
Hunan Economic & Technical Investment Guarantee Co.* (湖南經濟技術投資 擔保公司)	17,200,401	4.02%	17,200,401	3.41%	17,200,401	3.26%
Sichuang Huali Zinc Mine Company Limited (四川會理鋅礦 有限責任公司)	4,320,692	1.01%	4,320,692	0.86%	4,320,692	0.82%
Western Mining Industry Company Limited (西部礦業有限 責任公司)	4,320,692	1.01%	4,320,692	0.86%	4,320,692	0.82%
Jiangxi Province Qibaoshan Lead Zinc Mine (江西省七寶山鉛鋅礦)	2,592,433	0.61%	2,592,433	0.51%	2,592,433	0.49%
Suzhou city Xiaomaoshan Copper Lead Zinc Mine (蘇州市小茅山 銅鉛鋅礦)	1,728,260	0.40%	1,728,260	0.34%	1,728,260	0.33%

	Before Full Completion		After Zhuzhou Share Subscription only but before the Proposed Institutional Investors Share Issuance		After Full Completion	
	Number of shares held	Percentage of shareholdings (approximate figures)	Number of shares held	Percentage of shareholdings (approximate figures)	Number of shares held	Percentage of shareholdings (approximate figures)
Lechang city Lead Zinc Mining Industry Company Limited (樂昌市鉛鋅礦業有限責任公司)	1,728,260	0.40%	1,728,260	0.34%	1,728,260	0.33%
Public shareholders (including institutional investors)	162,000,000	37.90%	162,000,000	32.11%	185,000,000	35.07%
Total shareholding	<u>427,457,914</u>	<u>100%</u>	<u>504,457,914</u>	<u>100%</u>	<u>527,457,914</u>	<u>100%</u>

*Note 1:* Those shareholders marked \* are subject to the Voting Arrangements which enable the Company to effectively control approximately 52.64%, 57.27% and 59.89% voting rights at any general meetings of Zhuye Torch (i) before Full Completion, (ii) after Full Completion and (iii) after Zhuzhou Share Subscription only but before the Proposed Institutional Investors Share Issuance respectively.

*Note 2:* As part of the reorganization for the listing of the Company, HNG has injected its interest in Zhuye Torch into the Company pursuant to the terms of the reorganization agreement dated 1 September 2005 entered between, among other parties, the Company and HNG as disclosed in the section headed “Reorganization and Corporate Structure” of the Company’s prospectus dated 21 March 2006. The Company’s beneficial interest in Zhuye Torch is pending registration.

## INFORMATION ABOUT THE COMPANY AND COUNTERPARTIES

The Company is principally engaged in the production of nonferrous metals, including tungsten, zinc, antimony and lead, and compounds, alloys, and other products derived from these metals, but excluding aluminum, in the PRC.

The principal business of Zhuye Torch is the manufacturing, processing, smelting and sale of zinc.

The principal business of Zhuzhou is the manufacturing, processing and smelting of lead.

## USE OF PROCEEDS

The net proceeds from the Proposed Institutional Investors Share Issuance will be used for the working capital of Zhuye Torch.

## **REASONS FOR AND BENEFITS OF THE ZHUZHOU SHARE SUBSCRIPTION AND THE PROPOSED INSTITUTIONAL INVESTORS SHARE ISSUANCE**

Zhuye Torch is principally engaged in the manufacturing, processing, smelting and sale of zinc and was ranked number one in the PRC from the year 2002 to the year 2005 in terms of its total level of zinc production; whereas Zhuzhou is principally engaged in the manufacturing, processing and smelting of lead. The manufacturing, processing and smelting of zinc by Zhuye Torch currently involves the utilization of ancillary production facilities and systems owned by Zhuzhou and the utilisation of the resources of Zhuzhou.

Further, since zinc and lead exist together in nature, in the process of smelting operations, the waste produced during the smelting of zinc by Zhuye Torch, which contains lead and other valuable metals, is sold to Zhuzhou; while the waste produced during the smelting of lead by Zhuzhou which contains zinc and other valuable metals, is sold to Zhuye Torch. In order to reinforce internal integration and improve operating efficiency, the new business objective is to leverage the strength of Zhuye Torch and Zhuzhou and the synergies between Zhuye Torch and Zhuzhou, thereby giving the Group a very competitive cost structure and bargaining power.

In addition, the processes of manufacturing, processing and smelting of zinc require substantial level of supply of water, electricity and gas. However, at present, Zhuye Torch does not possess any ancillary production equipment to facilitate water, electricity and gas supply and has to rely on Zhuzhou by way of connected transaction to provide such ancillary production equipment. Hence, upon the subsequent transfer of the Assets to Zhuye Torch following the Zhuzhou Share Subscription, this will eliminate all of the existing connected transactions between the parties (which constitutes part of the continuing connected transactions of the Company classified as “Internal Connected Transaction” in the section headed “Connected Transaction” of the Company’s prospectus dated 21 March 2006). For the year ended 31 December 2005, the connected transactions relating to Zhuye Torch’s sale to Zhuzhou and Zhuye Torch’s purchase from Zhuzhou amounted to RMB292,790,000 and RMB177,850,000 respectively under the PRC GAAP. The Directors (other than the independent non-executive directors whose views will be set out in the letter from the Independent Board Committee to be included in the circular) of the Company consider that the transactions contemplated under the Agreement, the Zhuzhou Share Subscription and the Proposed Institutional Investors Share Issuance are in ordinary course of business and on normal commercial terms and fair and reasonable and in the interest of the Company and its Shareholders as a whole.

## **CONNECTION BETWEEN THE PARTIES AND LISTING RULES COMPLIANCE**

Zhuzhou is a company organized under the laws of the PRC, and is owned by the Company as to approximately 63.314% equity interest and COAMC as to approximately 36.686% equity interest, and is therefore a subsidiary of the Company.

Shenzhen Bangxin, being one of the promoters of the Company, currently holding approximately 1.65% shares in the Company and a connected person as defined in the Listing Rules is held as to approximately 89% interest by COAMC, which in turn holds approximately 36.686% interest in Zhuzhou. As a result, each of Shenzhen Bangxin, COAMC, Zhuzhou, and Zhuzhou’s subsidiaries (including Zhuye Torch) is the Company’s connected persons under Rules 14A.11 of the Listing Rules.

Zhuye Torch is a joint stock company organized under the laws of the PRC and is listed on the Shanghai Stock Exchange. Zhuye Torch is beneficially owned by the Company as to approximately 4.04% shares, by Zhuye Quanxin (a subsidiary of the Company) as to approximately 6.06% and by Zhuzhou (a subsidiary of the Company) as to approximately 30.44% shares. Despite the Company's direct and indirect holdings in Zhuye Torch being less than 50%, as disclosed in the Company's prospectus dated 21 March 2006, the Company effectively controlled approximately 60.98% of the voting rights at any shareholders' meetings of Zhuye Torch pursuant to the Shareholders' Agreement entered into among HNMC, Zhuzhou, Hunan Economic & Technical Investment Guarantee Co., Zhuye Quanxin and HNG since May 2005 and the voting arrangement with SME Service Center of Hunan Province. As at the date of this announcement, after completion of the share reform of Zhuye Torch in November 2005, the voting rights effectively controlled by the Company at any shareholders' meetings of Zhuye Torch are about 52.64% by virtue of the Voting Arrangements. Therefore, as a result of the Voting Arrangements, Zhuye Torch was consolidated by the Group in preparation of its financial information starting from 1 June 2005 and hence has been regarded as a subsidiary of the Company. As a result of Zhuzhou's holdings in Zhuye Torch, Zhuye Torch is considered a connected person of the Company under the Listing Rules.

Accordingly, among other things, Zhuzhou Share Subscription, being an intra-group transaction, however constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Furthermore, the Zhuzhou Share Subscription also constitutes a discloseable transaction under Chapter 14 of the Listing Rules. It involves both (i) an acquisition of the Assets by Zhuye Torch (or a disposal of the Assets by Zhuzhou) and (ii) an issue of the Zhuye Torch A-Shares by Zhuye Torch (or subscription for the Zhuye Torch A-Shares by Zhuzhou). In essence, it is an intra-group transaction and is expected to result in a decrease of the Company's attributable interest in the Assets and an increase in the Company's attributable interest in Zhuye Torch. The size of such an intra-group transaction should be calculated by reference to the higher of the decrease in the Company's interest in the Assets, revenue and profits attributable to the Assets and the increase in the Company's attributable interest in Zhuye Torch before and after Completion. Given that the relevant percentage ratios of change in the Company's interest in the Assets arising from Zhuzhou Share Subscription calculated in accordance with Rule 14.07 of the Listing Rules are higher and are more than 5% but less than 25%, the Zhuzhou Share Subscription is subject to reporting, announcement and Independent Shareholders' approval requirement. Please note that the actual consideration in relation to the disposal of the Assets by Zhuzhou has not been finalized and will be determined on an arm's length basis between Zhuye Torch and Zhuzhou after the approval being obtained from the CSRC to issue the Zhuye Torch A-Shares. However, the Company expects that the actual consideration will not be large enough to make any of the relevant percentage ratios exceed 25% since it is the current intention of Zhuye Torch and Zhuzhou that the actual consideration will not be significantly different from the price of RMB7.95. In the event that Zhuye Torch and Zhuzhou cannot agree on the actual consideration per tradable Zhuye Torch A-Share, the Zhuzhou Share Subscription will not proceed. Furthermore, in the event that the actual percentage ratios exceed 25%, the Company will take necessary action to ensure compliance with the Listing Rules.

On the other hand, the Proposed Institutional Investors Share Issuance does not constitute connected transactions and does not require the approval of shareholders of the Company under the Listing Rules.

The Board has established an Independent Board Committee comprising three independent non-executive Directors to consider and, if appropriate, make a recommendation to the Independent Shareholders: (i) as to whether the terms of the Zhuzhou Share Subscription, and the Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and (ii) to advise the Independent Shareholders on how to vote, taking into account the recommendations of Evolution Watterson, the independent financial adviser, in relation to the Zhuzhou Share Subscription and the Agreement.

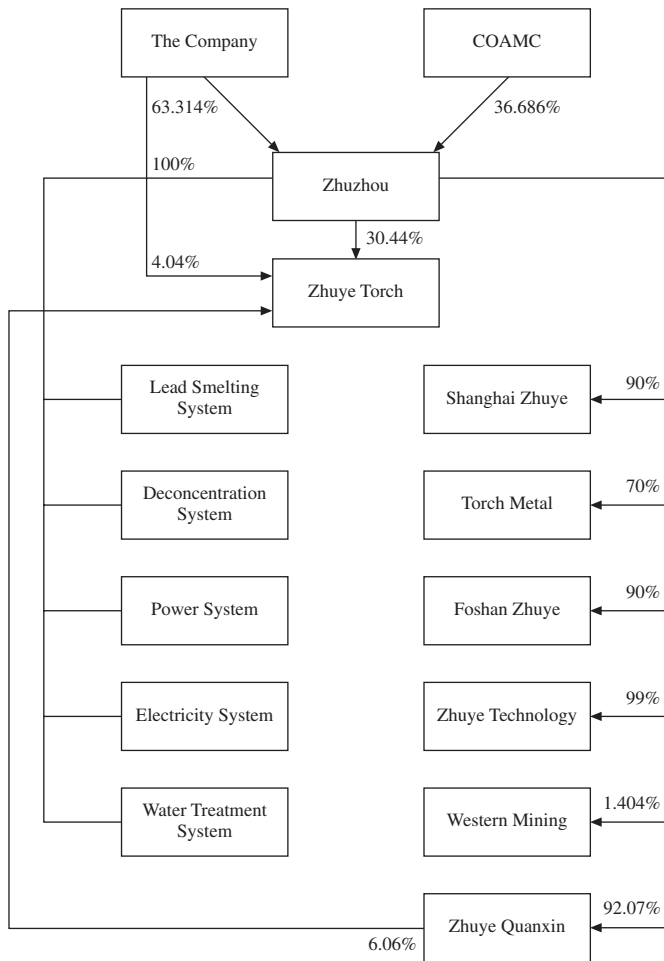
The Company has appointed Evolution Watterson as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Zhuzhou Share Subscription and the Agreement.

HNG is a connected person of the Company under Rule 14A.11(1) of the Listing Rules by virtue of the fact that it is the controlling Shareholder as defined under the Listing Rules. It is entitled to vote on and approve the Zhuzhou Share Subscription and the Agreement because its interest is the same as those of the other Shareholders. HNG no longer has any direct beneficial interest in Zhuye Torch and HNG’s indirect interest in Zhuye Torch is through its holdings in the Company only.

Under Rule 14A.18(1) of the Listing Rules, Shenzhen Bangxin currently holding approximately 1.65% shares in the Company is required to abstain from voting in respect of the Zhuzhou Share Subscription and the Agreement at the upcoming shareholders’ general meeting of the Company by virtue of its indirect shareholding in Zhuzhou through COAMC.

**BEFORE AND AFTER COMPLETION OF THE ZHUSHOU SHARE SUBSCRIPTION**

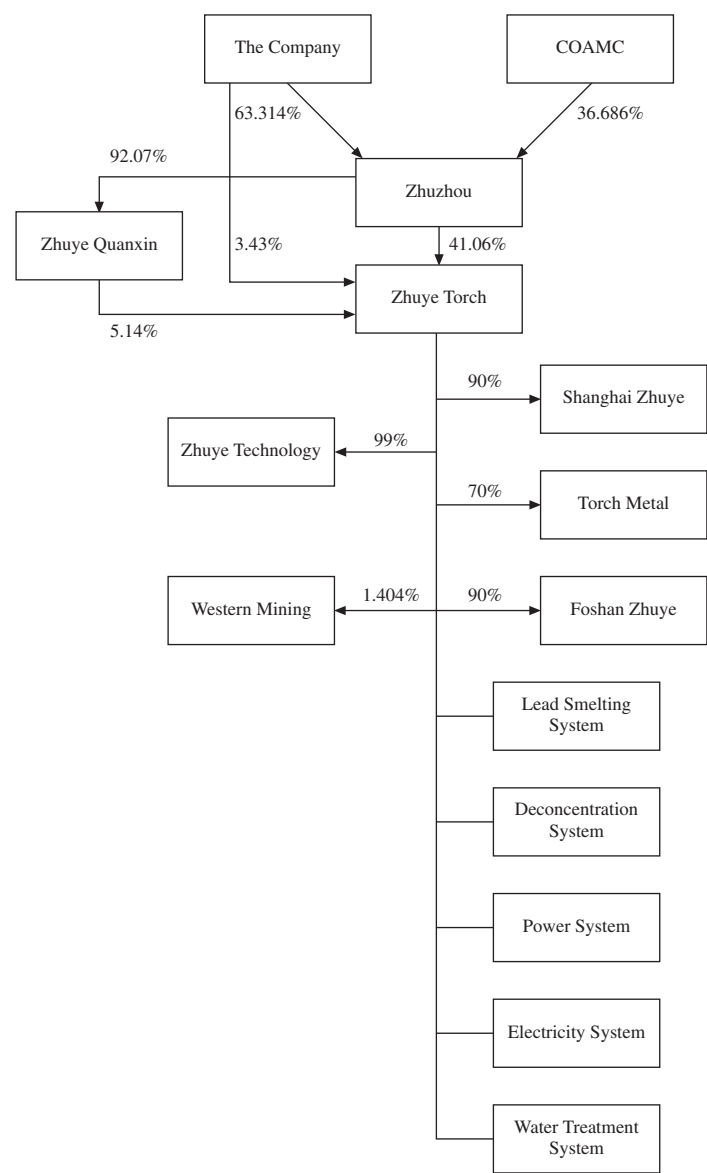
**Before Completion of Zhuzhou Share Subscription**



*The percentages of shareholdings as shown above are approximate figures.*



After Completion of Zhuzhou Share Subscription



\* Assuming 77,000,000 Zhuye Torch A-Shares are issued to Zhuzhou upon Completion.

The percentages of shareholdings as shown above are approximate figures.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Agreement”	the share sale and purchase agreement dated 17 August 2006 entered into between Zhuye Torch as the issuer and Zhuzhou as the subscriber
“Assets”	Lead Smelting System, Deconcentration System, Power System, Electricity System and Water Treatment System as well as approximately 90% equity interest in Shanghai Zhuye, approximately 70% equity interest in Torch Metal, approximately 90% equity interest in Foshan Zhuye, approximately 99% equity interest in Zhuye Technology and approximately 1.404% equity interest in Western Mining currently held by Zhuzhou
“Assets Audit Day”	the last day of the month preceding to completion of transfer of the Assets
“Assets Valuation Day”	31 March 2006
“Board”	the board of Directors
“CNNCCS”	China National Nonferrous Metals Corporation Changsha Branch (中國有色金屬總公司長沙公司), a PRC state-owned industry regulator and operator in Hunan province which was reorganized and renamed as HNMC in December 2000 and an Independent Third Party
“COAMC”	China Orient Asset Management Corporation (中國東方資產管理公司), a state-owned enterprise organized under the laws of the PRC, and a controlling shareholder of Shenzhen Bangxin
“Company”	Hunan Nonferrous Metals Corporation Limited (湖南有色金屬股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are currently listed on the main board of the Stock Exchange
“Completion”	completion of the Zhuzhou Share Subscription in accordance with the terms of the Agreement
“Consideration”	the aggregate amount of payable to Zhuye Torch by Zhuzhou for the subscription of not less than 77,000,000 new Zhuye Torch A-Shares
“CSRC”	China Securities Regulatory Commission of the State Council of the PRC (中國證券監督管理委員會)
“connected persons”	has the meaning ascribed to it in the Listing Rules

“Deconcentration System”	an integrated recycling centre undertaking the recycling of residue generated from lead smelting of Zhuzhou and zinc smelting of Zhuye Torch and the refining of precious metals including silver, indium, gold, copper and bismuth. Its aggregate recycling percentage reaches about 75% or above
“Director(s)”	the director(s) of the Company
“EGM”	extraordinary general meeting of the Company to be convened to approve the Zhuzhou Share Subscription and related matters as contemplated under this announcement
“Electricity System”	a system used for processing alternating current and direct current for Zhuye Torch and Zhuzhou
“Evolution Watterson”	Evolution Watterson Securities Limited, the independent financial adviser, appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Zhuzhou Share Subscription and the Agreement
“Foshan Zhuye”	Foshan City Nanhai Zhuye Nonferrous Metals Co., Ltd. (佛山市南海株冶金屬有限公司), a limited liability company organized under the laws of the PRC, approximately 90% of its equity interest is owned by Zhuzhou and approximately 10% of its equity interest is owned by Zhuye Asset Operation Co. wholly owned by HNG
“Full Completion”	Completion of the Zhuzhou Share Subscription and the Proposed Institutional Investors Share Issuance
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares in ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in HK dollars and listed on the Stock Exchange
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HNG”	Hunan Nonferrous Metals Holding Group Co., Ltd. (湖南有色金屬控股集團有限公司), being one of the promoters of the Company and, except where the context may otherwise require, all of its subsidiaries excluding the Group
“HNMC”	Hunan Nonferrous Metals Industry Company (湖南省有色金屬工業總公司), a state-owned enterprise whose immediate predecessor was CNNCCS and an Independent Third Party
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hunan SASAC”	the State-owned Assets Supervision and Administration Commission of Hunan Province under the State Council of the PRC (湖南省國有資產監督管理委員會)

“Independent Board Committee”	an independent committee of the Board comprising three existing independent non-executive Directors of the Company established for the purpose of advising the Independent Shareholders in relation to the Zhuzhou Share Subscription, the Agreement and Institutional Investor Share Issuance
“Independent Shareholders”	any shareholder of the Company that is not required to abstain from voting at a general meeting, if necessary, to approve a connected transaction
“Independent Third Party(ies)”	a third party and their ultimate beneficial owners (except the PRC Governmental Body as defined in Rule 19A.04 of the Listing Rules), to the best of the Director’s knowledge, information and belief having made all reasonable enquiries, being third party independent of the Company and connected persons (as defined under the Listing Rules) of the Company and not being the connected persons (as defined under the Listing Rules) of the Company
“Lead Smelting System”	100,000-ton lead smelting system currently owned by Zhuzhou
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Net Asset Value”	net asset value of the Assets to be used for satisfying the Consideration
“Power System”	a system supplying gas by its 12 gas furnaces, supplying water (including water for production, drinking water, soft water and recycled water), balance steam by its 4 furnaces, and supplying high pressure and low pressure air by its compressor
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Taiwan, Hong Kong and Macau)
“PRC GAAP”	the accounting rules, regulations and generally accepted practice in the PRC
“Proposed Institutional Investors Share Issuance”	the sale by Zhuye Torch and the purchase by certain PRC institutional investors of not more than 23,000,000 new Zhuye Torch A-Shares
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Shanghai Zhuye”	Shanghai Zhuye Nonferrous Metals Co., Ltd (上海株冶金屬有限公司), a limited liability company organized under the laws of the PRC, approximately 90% of its equity interest is owned by Zhuzhou and approximately 10% of its equity interest is owned by Zhuye Asset Operation Co. wholly owned by HNG
“Share(s)”	share(s) of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	Shareholders’ Agreement entered into among HNMC, Zhuzhou, Hunan Economic & Technical Investment Guarantee Co., Zhuye Quanxin and HNG dated 16 May 2005
“Shenzhen Bangxin”	Shenzhen City Bangxin Investment Development Co., Ltd. (深圳市邦信投資發展有限公司), a limited liability company organized under the laws of the PRC and one of the promoters of the Company, about 89% of its equity interest is owned by COAMC and about 11% of its equity interest is owned by Shenzhen Bangxin Financial Consultancy Co. Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 32, Laws of Hong Kong) and “subsidiaries” shall be construed accordingly
“Taiwan”	Taiwan, Republic of China
“Torch Metal”	Torch Metal Limited (火炬金屬有限公司), a company incorporated in Hong Kong with limited liability, approximately 70% of its equity interest is owned by Zhuzhou and approximately 30% of its equity interest is owned by Sanxiang Metals Group Co. Ltd. (as an Independent Third Party)
“Voting Arrangements”	the voting arrangements in relation to the voting rights at the general meeting of Zhuye Torch between the Company and certain shareholders of Zhuye Torch (including HNMC, Zhuzhou, Hunan Economic & Technical Investment Guarantee Co., Zhuye Quanxin and SME Service Center of Hunan Province)
“Water Treatment System”	a system used for purifying water emitted from Zhuzhou and Zhuye Torch and remitting part of the purified water to the production system of Zhuye Torch and Zhuzhou
“Western Mining”	Qinghai Western Mining Company Limited (青海西部礦業有限公司) is currently owned by Zhuzhou as to approximately 1.404% approximately, by Western Mining Industry Company Limited (西部礦業有限責任公司) as to about 24.96% equity interest and by other 13 corporate shareholders as to the remaining interest
“Zhuye Quanxin”	Zhuzhou Quanxin Industry Co., Ltd (株洲全鑫實業有限責任公司), a limited liability company organized under the laws of the PRC, approximately 92.07% of its equity interest is owned by Zhuzhou, approximately 7.74% of its equity interest by Zhuye Labour Union (株冶工會), and approximately 0.19% of its equity interest by Zhuzhou Jincheng Industrial Co., Ltd. (株洲金程實業有限責任公司) (as an Independent Third Party)

“Zhuye Torch A-Share(s)”	A share(s) of Zhuye Torch listed and traded on the Shanghai Stock Exchange
“Zhuye Torch”	Hunan Zhuye Torch Metals Co., Ltd. (湖南株冶火炬金屬股份有限公司), a joint stock company organized under the laws of the PRC and listed on the Shanghai Stock Exchange, approximately 30.44% of its equity interest is owned by Zhuzhou, approximately 6.06% of its equity interest is owned by Zhuye Quanxin, and approximately 4.04% of its equity interest is owned by the Company
“Zhuye Technology”	Zhuye Smelter Group Technology Development Co., Ltd. (株洲冶煉集團科技開發有限責任公司), the successor of Zhuye Smelter Group Technical Center (株洲冶煉集團技術中心) and a company organized under the laws of the PRC, approximately 99% of its equity interest is owned by Zhuzhou and approximately 1% of its equity interest is owned by Zhuye Quanxin
“Zhuzhou”	Zhuzhou Smelter Group Co., Ltd. (株洲冶煉集團有限責任公司), a company organized under the laws of the PRC, approximately 63.314% of its equity interest is owned by the Company and approximately 36.686% is owned by COAMC
“Zhuzhou Share Subscription”	the issue by Zhuye Torch and the subscription by Zhuzhou, of not less than 77,000,000 new Zhuye Torch A-Shares
“%”	per cent.

By Order of the Board  
**Hunan Nonferrous Metals Corporation Limited**  
**He Renchun**  
*Chairman*

25 August 2006, Changsha, PRC

\* *for identification only*

*Note:* Unless otherwise specified, for the purpose of illustration only the conversion of RMB into HK\$ is based on the exchange rate of RMB1.03 = HK\$1.00.

*As at the date of this announcement, the Board comprises three executive Directors, namely He Renchun, Li Li, Liao Luhai and Chen Zhixin; four non-executive Directors, namely Cao Xiuyun, Wu Longyun, Zhang Yixian and Yu Jiang; and three independent non-executive Directors, namely Gu Desheng, Chan Wai Dune and Wan Ten Lap.*

“Please also refer to the published version of this announcement in the South China Morning Post”