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湖南有色
HUNAN NONFERROUS

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the "Board") of Hunan Nonferrous Metals Corporation Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue	2, 3	13,089,067	14,079,764
Cost of sales		(12,286,750)	(13,159,310)
Gross profit		802,317	920,454
Other income	3	133,510	235,873
Selling and distribution costs		(225,801)	(209,585)
Administrative expenses		(633,335)	(785,724)
Other expenses, net		(9,003)	(15,139)
Impairment of property, plant and equipment		—	(2,100)
Provision for impairment of trade and other receivables		(18,375)	(10,990)
Finance income		11,977	11,653
Finance costs		(383,132)	(362,031)
Share of profit of an associate		2,762	3,792
Loss before income tax	4	(319,080)	(213,797)
Income tax expense	5	(47,031)	(60,263)
Loss for the period		(366,111)	(274,060)
Attributable to:			
Owners of the Company		(304,216)	(160,707)
Non-controlling interests		(61,895)	(113,353)
Loss for the period		(366,111)	(274,060)
Loss per share			
Basic and diluted	7	(8.29 cents)	(4.38 cents)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(366,111)</u>	<u>(274,060)</u>
Other comprehensive income/(loss) for the period, net of tax:		
<i>Item that will not be reclassified to profit or loss</i>		
Net actuarial losses of defined benefit retirement schemes	<u>(28,111)</u>	<u>(5,129)</u>
Item that will not be reclassified to profit or loss	<u>(28,111)</u>	<u>(5,129)</u>
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	56,695	(14,919)
Disposal of available-for-sale financial assets	—	(34,957)
Changes in fair value of available-for-sale financial assets	<u>1,980</u>	<u>(34,403)</u>
Items that may be reclassified subsequently to profit or loss	<u>58,675</u>	<u>(84,279)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>30,564</u>	<u>(89,408)</u>
Total comprehensive loss for the period	<u><u>(335,547)</u></u>	<u><u>(363,468)</u></u>
Attributable to:		
Owners of the Company	(269,291)	(203,481)
Non-controlling interests	<u>(66,256)</u>	<u>(159,987)</u>
Total comprehensive loss for the period	<u><u>(335,547)</u></u>	<u><u>(363,468)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014	31 December 2013
	Note	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		10,165,004	9,954,412
Land lease prepayments		1,031,135	949,704
Intangible assets		1,517,476	1,543,375
Other assets		776,212	731,908
Goodwill		79,547	79,547
Interest in an associate		66,251	63,489
Available-for-sale financial assets		43,521	41,963
Deferred tax assets		125,406	128,365
Total non-current assets		13,804,552	13,492,763
CURRENT ASSETS			
Inventories		6,460,803	6,022,444
Trade receivables	8	1,899,069	1,210,499
Bills receivable		875,450	961,262
Prepayments, deposits and other receivables		1,866,888	1,662,433
Tax recoverable		24,837	22,184
Pledged deposits		15,683	6,900
Non-pledged time deposits with maturity over three months from date of deposits		4,481	4,441
Cash and cash equivalents		1,969,721	1,781,974
Total current assets		13,116,932	11,672,137
CURRENT LIABILITIES			
Trade payables	9	1,775,327	1,244,948
Bills payable		124,604	42,493
Other payables and accruals		1,769,608	1,737,227
Interest-bearing bank and other borrowings		11,752,478	10,107,094
Tax payable		23,893	64,709
Dividend payable		61,901	61,901
Total current liabilities		15,507,811	13,258,372
NET CURRENT LIABILITIES		(2,390,879)	(1,586,235)
TOTAL ASSETS LESS CURRENT LIABILITIES		11,413,673	11,906,528

		30 June 2014	31 December 2013
	Note	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		3,777,952	4,016,910
Other liabilities		684,289	659,325
Payables for mining rights		100,762	101,120
Government grants		701,958	609,518
Deferred tax liabilities		205,218	201,242
		<u>5,470,179</u>	<u>5,588,115</u>
Total non-current liabilities		<u>5,470,179</u>	<u>5,588,115</u>
NET ASSETS		<u><u>5,943,494</u></u>	<u><u>6,318,413</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	10	3,668,058	3,668,058
Reserves		64,723	352,317
		<u>3,732,781</u>	<u>4,020,375</u>
Non-controlling interests		2,210,713	2,298,038
		<u>2,210,713</u>	<u>2,298,038</u>
TOTAL EQUITY		<u><u>5,943,494</u></u>	<u><u>6,318,413</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013, which has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board.

The accounting policies used in this condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the accounting policy changes that are set out in detail in note 1(a) below.

(a) New and amended standards adopted by the Group

The following amendments to IFRSs are mandatory for the first time adoption for the accounting period beginning on 1 January 2014:

IFRS 10, IFRS 12 and IAS 27 (as revised in 2011) (Amendments)	Investment Entities
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC Interpretation - 21	Levies

The adoption of these amendments to IFRSs had no material effects on the amounts reported and disclosures set out in this condensed consolidated interim financial information.

(b) New and revised IFRSs issued but not yet effective

The following new standards and amendments to standards and interpretations have been issued but are not yet effective for the accounting period beginning on 1 January 2014 and have not been early adopted by the Group:

IFRS 9	Financial Instruments ⁴
IFRS 14	Regulatory Deferral Accounts ²
IFRS 15	Revenue from Contracts with Customer ³
IAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions ¹
IFRS (Amendments)	Annual Improvements to IFRSs 2010 – 2012 Cycle ¹
IFRS (Amendments)	Annual Improvements to IFRSs 2011 – 2013 Cycle ¹
IFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations ²
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ²

¹ Effective for annual periods beginning on or after 1 July 2014.

² Effective for annual periods beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 January 2017.

⁴ Effective for annual periods beginning on or after 1 January 2018.

The directors of the Company anticipate that the application of these new and revised IFRSs will have no material impact on the results and the financial position of the Group.

2. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the board of directors. The board of directors consists of the executive directors, non-executive directors and independent non-executive directors. The board of directors reviews the Group's internal reporting in order to assess performance, financial budget and allocate resources. Management has determined the business segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

Summary details of the business segments are as follows:

- (a) Nonferrous metal mine site segment: mining and trading of nonferrous metals;
- (b) Nonferrous metal smelting segment: smelting and trading of nonferrous metals;
- (c) Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment: manufacture and trading of hard alloys and refractory metal compounds such as cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds.

The accounting policies of the reportable segments are the same as the accounting policies described in note 1. Segment profit/(loss) represents the profit/(loss) before income tax of each segment without allocation of dividend income, finance costs and share of profit of an associate. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment.

For the purpose of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable segments other than interest in an associate and unallocated corporate assets (if any). Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Nonferrous metal mine sites RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
For the six months ended 30 June 2014 (Unaudited)						
Segment revenue:						
Sales to external customers	2,186,388	7,215,627	3,750,186	—	—	13,152,201
Inter-segment sales	108,112	—	—	—	(108,112)	—
Less: Sales tax and surcharges	(30,803)	(5,470)	(26,861)	—	—	(63,134)
Total	2,263,697	7,210,157	3,723,325	—	(108,112)	13,089,067
Segment (loss)/profit	(69,816)	198,513	(55,549)	(12,921)	—	60,227
Dividend income	—	—	—	—	—	1,063
Finance costs	—	—	—	—	—	(383,132)
Share of profit of an associate	—	—	—	—	—	2,762
Loss before income tax	—	—	—	—	—	(319,080)
Income tax expense	—	—	—	—	—	(47,031)
Loss for the period						(366,111)
At 30 June 2014 (Unaudited)						
Assets:						
Segment assets	9,718,928	6,525,813	10,180,963	235,765	—	26,661,469
Interest in an associate	—	—	—	—	—	66,251
Unallocated assets	—	—	—	—	—	193,764
Total assets						26,921,484

	Nonferrous metal mine sites RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
For the six months ended						
30 June 2013 (Unaudited)						
Segment revenue:						
Sales to external customers	2,871,089	7,014,758	4,257,398	—	—	14,143,245
Inter-segment sales	86,426	425	—	—	(86,851)	—
Less: Sales tax and surcharges	(26,308)	(3,829)	(33,344)	—	—	(63,481)
Total	<u>2,931,207</u>	<u>7,011,354</u>	<u>4,224,054</u>	<u>—</u>	<u>(86,851)</u>	<u>14,079,764</u>
Segment profit/(loss)	<u>71,550</u>	<u>(80,417)</u>	<u>261,138</u>	<u>(145,661)</u>	<u>—</u>	<u>106,610</u>
Dividend income and gains on disposal of available-for-sale financial assets	—	—	—	—	—	37,832
Finance costs	—	—	—	—	—	(362,031)
Share of profit of an associate	—	—	—	—	—	3,792
Loss before income tax	—	—	—	—	—	(213,797)
Income tax expense	—	—	—	—	—	(60,263)
Loss for the period						<u>(274,060)</u>
At 31 December 2013						
(audited)						
Assets:						
Segment assets	8,812,967	6,272,280	9,619,514	204,138	—	24,908,899
Interest in an associate	—	—	—	—	—	63,489
Unallocated assets	—	—	—	—	—	192,512
Total assets						<u>25,164,900</u>

3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of discounts and returns.

An analysis of the Group's revenue and other income is as follows:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue		
Sale of goods	13,152,201	14,143,245
Less: Sales tax and surcharges	<u>(63,134)</u>	<u>(63,481)</u>
	<u>13,089,067</u>	<u>14,079,764</u>
Other income		
Dividend income	1,063	2,875
Profit from sales of raw materials and scrap products	29,446	84,368
Gross rental income	7,570	7,701
Gains on disposal of available-for-sale financial assets	—	34,957
Net gains on disposal of property, plant and equipment	1,711	3,952
Recognition of government grants	84,351	92,360
Rendering of services	5,909	1,376
Others	<u>3,460</u>	<u>8,284</u>
	<u>133,510</u>	<u>235,873</u>

4. LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Cost of inventories sold	12,286,750	13,159,310
Depreciation of property, plant and equipment	424,193	387,645
Amortisation of land lease prepayments	12,929	11,555
Amortisation of intangible assets		
– Mining rights	21,439	20,252
– Technical know-how and others	5,953	6,996
Write down of inventories	106,257	287,975
Impairment of property, plant and equipment	–	2,100
Provision for impairment of trade and other receivables	18,375	10,990
Net gains on disposal of property, plant and equipment	(1,711)	(3,952)
Net realised and unrealised losses on derivative financial instruments	5,655	10,959

5. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the companies comprising the Group are domiciled and operated.

PRC corporate income tax ("CIT") has been provided at a rate of 25% (2013: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes, except for the following subsidiaries of the Company which are qualified as high and new technology enterprises and subject to a preferential CIT rate of 15%:

- (a) Zhuzhou Smelter Group Co., Ltd.
- (b) Zhuzhou Cemented Carbides Group Corp., Ltd.
- (c) Hunan Shizhuyuan Nonferrous Metals Co., Ltd.
- (d) Zhuzhou Diamond Cutting Tools Company Limited
- (e) Hsikwangshan Twinkling Star Antimony Co., Ltd.
- (f) Shenzhen Jinzhou Jingong Scientific and Technological Company Limited
- (g) Zigong Cemented Carbides Company Limited

- (h) Chengdu Keruide High-Tech New Materials Co., Ltd.
- (i) Zigong Tungsten Carbide Co., Ltd.
- (j) Zigong Equipment Technology Co., Ltd. (formerly known as Zigong AsiaTech High-Tech Ltd.)
- (k) Zhongwu Gaoxin Materials Company Limited Zigong Cemented Carbides Branch

Major components of the Group's income tax expense are as follows:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Current tax - CIT		
Provision for the period	40,956	51,969
Deferred tax		
Temporary differences	<u>6,075</u>	<u>8,294</u>
Income tax expense	<u><u>47,031</u></u>	<u><u>60,263</u></u>

6. DIVIDENDS

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: RMBNil).

7. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company of approximately RMB304,216,000 (six months ended 30 June 2013: RMB160,707,000) by the weighted average number of ordinary shares of approximately 3,668,058,000 shares (six months ended 30 June 2013: 3,668,058,000 shares) in issue during the period.

(b) Diluted

The diluted loss per share for the six months ended 30 June 2014 and 2013 is the same as the basic loss per share as there are no diluted ordinary shares during the period.

8. TRADE RECEIVABLES

The Group normally allows a credit period of one to three months to customers with an established trading history; otherwise, cash terms are normally required.

An aged analysis of the trade receivables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 1 year	1,893,021	1,209,095
Over 1 year but within 2 years	28,662	16,589
Over 2 years but within 3 years	9,483	6,889
Over 3 years	<u>51,141</u>	<u>48,351</u>
	1,982,307	1,280,924
Less: Provision for impairment	<u>(83,238)</u>	<u>(70,425)</u>
	<u><u>1,899,069</u></u>	<u><u>1,210,499</u></u>

9. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 1 year	1,672,177	1,187,667
Over 1 year but within 2 years	83,323	38,308
Over 2 years but within 3 years	6,235	4,777
Over 3 years	<u>13,592</u>	<u>14,196</u>
	1,775,327	1,244,948
	<u><u>1,775,327</u></u>	<u><u>1,244,948</u></u>

10. SHARE CAPITAL

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Registered, issued and fully paid:		
– Domestic shares of RMB1.00 each	2,035,330	2,035,330
– H shares of RMB1.00 each	<u>1,632,728</u>	<u>1,632,728</u>
Total	<u><u>3,668,058</u></u>	<u><u>3,668,058</u></u>

MARKET REVIEW

(The following information is mainly extracted from www.metalchina.com. Prices of commodities include value-added tax.)

Tungsten

For domestic market, the price of tungsten in the first half of 2014 continued to decline since the second half of last year due to sufficient supply. It was hoped that the rising purchase and inventory volume would drive up the price. However, there were not such measures in place in the industry all the time. From January to June, the average domestic price of tungsten concentrates was RMB112,500 per ton, representing a decrease of 10.06% as compared with the same period in prior year. Its highest price was RMB118,000 per ton while its lowest price was RMB106,000 per ton. APT average price of tungsten was RMB172,900 per ton, representing a decrease of 6.05% as compared with the same period in prior year. Its highest price was RMB180,000 per ton while its lowest price was RMB166,000 per ton.

For international markets, the price of tungsten also continued to decrease gradually since the end of last year. Although it showed a rebound indication from the bottom in May and June, it still presented an overall downward trend in the market. From January to June, the average price of APT was USD365 per ton unit in European market. The highest price was USD372 per ton unit while the lowest price was USD358 per ton unit.

In the second half of 2014, it is expected that the demand and supply will not have significant changes. If there are no special events to stimulate and speculate, the domestic prices of wolframite concentrates and APT will fluctuate around approximately RMB110,000 per ton and RMB170,000 per ton, respectively. The APT price will fluctuate around USD370 per ton unit in European market.

Antimony

For domestic market, due to the ample supply, sluggish downstream demand, intense market competition and other factors, antimony price declined significantly in the first half of 2014. It reduced from a level of RMB58,000-59,500 per ton in mid-March to RMB55,500-57,500 per ton in mid-April, and such price remained until late June. From January to June, the average price of antimony ingots (2#) in domestic market was RMB56,670-58,510 per ton, representing a decrease of 14.3% as compared with the same period in prior year.

For international markets, antimony price showed a downtrend following a rise. In the first quarter, as the export volume of antimony decreased in China, antimony price in European market slowly grew up to USD9,600-9,850 per ton in late January, and remained at such level in February and mid-March. Subsequently, with the increase of antimony ingot supply, antimony price gradually fell to USD9,300-9,600 per ton in mid-April. In late May, as the smuggled antimony products out of China were hindered, the market supply became tight and the antimony price gradually rose to USD9,400-9,700 per ton until late June. From January to June, the average price of antimony (Class II) in the international market was USD9,437-9,725 per ton, representing a decrease of 9.7% as compared with the same period in prior year.

In the second half of 2014, the situation is still not optimistic in the antimony market with its downward trend in price. However, supported by the production costs of antimony, the declining space is small in respect of antimony price. The average price of antimony ingots (2#) in the domestic market will fluctuate within RMB55,000-56,000 per ton, while the average price of antimony ingots in the international market will be approximately USD9,500 per ton.

Lead

For international markets, during the first half of 2014, the price of 3-month lead future on London Metal Exchange (“LME”) generally showed a “V” shaped trend which characterised with an upsurge following a dip, with a fluctuation within USD2,050-2,200 per ton. The favorable fundamentals on tightening supply of peripheral metals and the significant rising of their prices were the main driving forces for this round of rebound in lead price. From January to June, the average prices of LME 3-month and spot-month lead future were USD2,123 per ton and USD2,100 per ton respectively, representing a decrease of 3.0% and 3.5% respectively as compared with the same period in prior year.

For domestic market, the trend of lead price was in line with the international market with an upward trend following a decline. At the beginning of the year, the opening price of lead dominant contracts quoted in the Shanghai Futures Exchange (“SHFE”) was RMB14,235 per ton, subsequently followed the downward trend in the international market and fell to its lowest point at RMB13,495 per ton in mid-March. In April, lead price increased successively with the rising nickel and zinc prices and hit its the highest point at RMB14,480 per ton in June. From January to June, SHFE lead dominant contract and spot-month contract average prices were RMB13,494 per ton and RMB13,872 per ton respectively, representing a decrease of 3.9% and 3.7% respectively as compared with the same period in prior year.

In the second half of this year, due to the favorable factors such as positive microeconomic trend, peripheral metal fundamentals and overseas lead market, it is expected that it is quite possible that the domestic and international lead prices will rise on a period-on-period basis, despite the limited increases as affected by the weak fundamentals in domestic market. It is estimated that the average price of LME 3-month lead future will be USD2,150 per ton, within the range of USD2,050-2,250 per ton. The average price of SHFE lead dominant contracts will be RMB14,150 per ton, within the range of RMB13,900-14,250 per ton. The average domestic spot price will be RMB14,000 per ton.

Zinc

For international markets, zinc price showed a W-shaped trend in the first half of 2014. During the first quarter, after a rising wave in spring, zinc price returned to its declining trend and reached bottom in mid-March, and then gradually rebounded. At the beginning of June, driven by the public opinion of supply shortage in zinc market and successive entries of long funds, zinc price hit its highest point since the previous 16 months. The monthly average price of 3-month zinc future in June was USD2,131 per ton, representing an increase of 3.2% as compared with the same period in prior year and an increase of 13.7% on a period-on-period basis. From January to June, the average price of LME 3-month zinc future was USD2,051 per ton, representing an increase of 4.3% as compared with the same period in prior year, and the average price of spot zinc was USD2,051 per ton, representing an increase of 5.9% as compared with the same period in prior year.

For domestic market, zinc price passively increased with international markets with its highest point above RMB16,000 per ton and its lowest point near RMB14,600 per ton. From January to June, the average SHFE zinc price was RMB15,143 per ton, representing an increase of 1.4% as compared with the same period in prior year, and the average domestic price of spot 0# zinc was RMB15,060 per ton, representing an increase of 1.1% as compared with the same period in prior year.

Given the sufficient supply of zinc concentrates in current domestic and international markets, it is expected that zinc price will continue to fluctuate within certain ranges of higher bottoms. The LME zinc price will mainly fluctuate within USD1,900-2,500 per ton; and the dominant contract price of SHFE zinc will passively increase and mainly fluctuate within RMB14,500-17,500 per ton. The average price of spot zinc will be primarily above RMB15,000 per ton.

BUSINESS OUTLOOK

During the first half year of 2014, the world's economy continued a moderate recovery. Developed economies represented by the United States had a more solid recovery momentum while the growth of emerging economies slowed down. China had a slow yet stable economic growth with still sluggish demand for non-ferrous metals. The average selling prices of antimony ingots and tungsten concentrates, the Company's main products, declined significantly as compared with the same period in prior year. Zhongwu Gaoxin Materials Company Limited, a major subsidiary of the Company, recorded substantial losses as compared with profit recorded in the same period in prior year due to factors such as significant decrease in prices of raw materials and products together with a large inventory. As a result, the Company continued to record losses in its interim results, with significant increase in losses attributable to shareholders of the Company during the period as compared with the same period in 2013.

From January to June 2014, the Company recorded a total production of 249,269 tons of zinc, representing a decrease of 3.40% as compared with the same period in prior year; production of lead was 61,034 tons, representing an increase of 30.67% as compared with the same period in prior year; production of cemented carbides(excluding CNC cutting blades) was 3,816 tons, representing a decrease of 10.34% as compared with the same period in prior year; production of antimony was 13,757 tons, representing an increase of 7.27% as compared with the same period in prior year; production of tungsten concentrates was 5,241 tons, representing an increase of 2.75% as compared with the same period in prior year; production of zinc concentrates was 11,578 tons, representing a decrease of 4.1% as compared with the same period in prior year; production of lead concentrates was 5,101 tons, representing an increase of 11.96% as compared with the same period in prior year; production of antimony concentrates was 5,289 tons, representing a decrease of 6.08% as compared with the same period in prior year.

In response to the unfavorable factors of weak external demand and declining prices of the main profitable products during the first half of the year, with structural adjustment, excellent management and efficiency enhancement as the general principle of production and on the basis of technology progress, the Company strived to increase the proportion of competitive products, fully explored the mining capacity, strengthened integrated recovery and achieved increases both in production and efficiency. Meanwhile, the Company enhanced financial operating analysis at each level to effectively control its costs and expenses, fully promoted to enhance management and effectively controlled various risks. Under the external economic situation without obvious recovery signs, the Company basically achieved its safe and sound production targets in the first half of this year.

Looking forward to the second half of the year, the global economy is expected to keep a recovery trend. However, due to withdrawal of the economic stimulation measures by the US, appreciation of US dollars as well as the excess production capacity in nonferrous industry, it is expected that the price of nonferrous metals will keep volatile within certain ranges. While ensuring safe and environment-friendly production, the Company will rationally regulate and control production capacity on a market-oriented basis, strive to increase income and save expenses, promote the construction of projects in progress and practically prevent various risks in order to turn from loss to profit in operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

During the six months ended 30 June 2014, loss before income tax increased by RMB105 million or 49.07% to RMB319 million, while loss before income tax amounted to RMB214 million for the six months ended 30 June 2013. Loss attributable to owners of the Company was RMB304 million, representing an increase of RMB143 million or 88.82%, from RMB161 million for the six months ended 30 June 2013.

The following is the comparison between the financial performance for the six months ended 30 June 2014 and 2013:

TURNOVER

Turnover decreased from RMB14,080 million for the six months ended 30 June 2013 to RMB13,089 million for the six months ended 30 June 2014, representing an decrease of RMB991 million or 7.04%, primarily due to the decrease in turnover before sales tax and surcharges from the nonferrous metal mine site segment of RMB685 million or 23.86% and the slight increase in turnover before sales tax and surcharges of RMB201 million or 2.87% from the nonferrous metal smelting segment, and decrease in turnover before sales tax and surcharges of RMB507 million or 11.90% from the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment.

Gross profit decreased by RMB118 million or 12.83% from RMB920 million for the six months ended 30 June 2013 to RMB802 million for the six months ended 30 June 2014, while the gross profit margins for the six months ended 2013 and 2014 were 6.53% and 6.13% respectively.

NONFERROUS METAL MINE SITE SEGMENT

The sales volume and average selling price of our nonferrous metal mine site products are as follows:

	Six months ended 30 June			
	2014		2013	
	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)
Shizhuyuan				
Tungsten concentrates	2,906	88,309	2,750	111,019
Bismuth products	766	116,740	357	97,626
Huangshaping Branch				
Zinc concentrates	2,370	8,420	3,904	9,013
Lead concentrates (containing sliver)	1,665	14,415	1,779	14,995
Hsikwangshan				
Antimony products	14,457	45,050	15,818	52,457
Zinc products	8,809	13,151	5,693	13,502
Xin Tianling				
Tungsten concentrates	1,607	91,458	1,049	115,227
Hengyang Yuanjing				
Tungsten concentrates	631	88,074	519	112,847

Turnover before sales tax and surcharges from the nonferrous metal mine site segment decreased by RMB685 million or 23.86% from RMB2,871 million for the six months ended 30 June 2013 to RMB2,186 million for the six months ended 30 June 2014. The turnover decreased primarily due to decrease in average selling price of the tungsten concentrates and decrease in average selling prices, sales volume and trading amounts of the antimony products in the first half of 2014.

Gross profit from the nonferrous metal mine site segment decreased by RMB142 million or 39.89% from RMB356 million for the six months ended 30 June 2013 to RMB214 million for the six months ended 30 June 2014, while the gross profit margin decreased by 2.59% from 12.40% for the six months ended 30 June 2013 to 9.81% for the six months ended 30 June 2014. This is mainly due to the decrease of gross profit margin of tungsten concentrates and antimony products during the period.

NONFERROUS METAL SMELTING SEGMENT

The sales volume and average selling price of our nonferrous metal smelting products are as follows:

	Six months ended 30 June			
	2014		2013	
	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)
Zinc products	264,914	13,270	264,309	13,227
Lead products	62,242	12,605	45,148	12,717
Precious metal – Indium	40	4,313,443	47	3,205,303
Precious metal – Silver	102	3,312,183	89	3,810,248

Turnover before sales tax and surcharges from the nonferrous metal smelting segment increased by RMB201 million or 2.87% from RMB7,015 million for the six months ended 30 June 2013 to RMB7,216 million for the six months ended 30 June 2014. The increase in turnover is primarily due to the increase in sales volume of the lead products.

Gross profit from the nonferrous metal smelting segment increased by RMB244 million or 420.69% from RMB58 million for the six months ended 30 June 2013 to RMB302 million for the six months ended 30 June 2014, while the gross profit margin increased by 3.35% from 0.83% for the six months ended 30 June 2013 to 4.18% for the six months ended 30 June 2014. Increase in gross profit margin is due to increase in gross profit margin of precious metal – indium and other ancillary products and decrease in impairment of inventories.

CEMENTED CARBIDES, AND TUNGSTEN, MOLYBDENUM, TANTALUM, NIOBIUM AND THEIR COMPOUNDS SEGMENT

The sales volume and average selling price of our cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds are as follows:

	Six months ended 30 June			
	2014		2013	
	Sales volume	Average selling price (RMB)	Sales volume	Average selling price (RMB)
Cemented carbides	3,752 tons	410,559/ton	3,652 tons	436,304/ton
Tungsten and its compounds	3,259 tons	230,694/ton	5,040 tons	208,875/ton
Molybdenum and its compounds	486 tons	275,465/ton	382 tons	302,660/ton
Tantalum, niobium and their compounds	99 tons	1,182,210/ton	85 tons	1,217,737/ton
Indexable insert tips	2,245 thousand pieces	56,010/thousand piece	1,969 thousand pieces	60,810/thousand piece
PCB drills	104,430 thousand pieces	2,376/thousand piece	83,215 thousand pieces	2,739/thousand piece

Turnover before sales tax and surcharges from the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment decreased by RMB507 million or 11.90% from RMB4,257 million for the six months ended 30 June 2013 to RMB3,750 million for the six months ended 30 June 2014. The decrease in turnover is primarily due to the decrease in trade volume and sales volume of tungsten and its compounds.

Gross profit from the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment decreased by RMB220 million or 43.48% from RMB506 million for the six months ended 30 June 2013 to RMB286 million for the six months ended 30 June 2014, while the gross profit margin decreased by 4.27% from 11.89% for the six months ended 30 June 2013 to 7.62% for the six months ended 30 June 2014. This is mainly due to decrease of gross profit margin of cemented carbides and tungsten and its compounds.

OTHER INCOME

Other income decreased by RMB102 million, or 43.22% from RMB236 million for the six months ended 30 June 2013 to RMB134 million for the six months ended 30 June 2014. The decrease is primarily due to the decrease in profit from sales of raw materials and scraps, and no gains on disposal of available-for-sale financial assets was recognised during the period.

SELLING AND DISTRIBUTION COSTS

The selling and distribution costs increased by RMB16 million, or 7.62% from RMB210 million for the six months ended 30 June 2013 to RMB226 million for the six months ended 30 June 2014. The increase is primarily due to the increase in unloading and transportation expenses.

ADMINISTRATIVE EXPENSES

The administrative expenses decreased by RMB153 million, or 19.47% from RMB786 million for the six months ended 30 June 2013 to RMB633 million for the six months ended 30 June 2014. The decrease is primarily due to the decrease in entertainment and travelling expenses by RMB17 million and exchange losses by RMB112 million.

OTHER EXPENSES, NET

Other expenses, net decreased by RMB6 million, or 40% from RMB15 million for the six months ended 30 June 2013 to RMB9 million for the six months ended 30 June 2014. The decrease is primarily due to the decrease in net realised and unrealised loss on derivative financial instruments.

PROVISION FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPEMENT

No provision for impairment of property, plant and equipment was made for the six months ended 30 June 2014, albeit provision for impairment of property, plant and equipment of RMB2 million was made for the same period in 2013.

PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The Group has made provision for impairment of trade and other receivables of RMB18 million, provision of RMB11 million has been made for the same period in 2013. The main reason for the increase is due to more receivables were aged over 1 year. Current provision was recognised through the assessment of recoverability of trade and other receivables.

FINANCE COSTS

Finance costs increased by RMB21 million or 5.80% from RMB362 million for the six months ended 30 June 2013 to RMB383 million for the six months ended 30 June 2014. The increase is primarily due to the corresponding increase in interest-bearing bank and other borrowings.

INCOME TAX EXPENSE

Income tax expense decreased by RMB13 million or 21.67% from RMB60 million for the six months ended 30 June 2013 to RMB47 million for the six months ended 30 June 2014. The decrease is primarily due to decrease in net profits of subsidiaries which led to the corresponding decrease in provision for income tax expense.

LOSS FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Loss for the period attributable to the owners of the Company increased by RMB143 million or 88.82% from RMB161 million for the six months ended 30 June 2013 to RMB304 million for the six months ended 30 June 2014. The increase is primarily due to Zhongwu Gaoxin turned from profit to loss and the decrease in both selling price and gross profit of tungsten concentrates and antimony products.

LOSS FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Loss for the period attributable to non-controlling interests decreased by RMB51 million or 45.13% from RMB113 million for the six months ended 30 June 2013 to RMB62 million for the six months ended 30 June 2014. The decrease is mainly due to improvement of business operations of the subsidiary, Zhuzhou Smelter Group Holding Co., Ltd. and its subsidiaries during the period.

LIQUIDITY, SOURCE OF FUNDS AND CAPITAL STRUCTURE

During the six months ended 30 June 2014, interest-bearing bank and other borrowings were the main sources of funds. The funds of the Group were applied mainly to the operating activities, the capital expenditures and the repayment of bank loans. As at 30 June 2014, the cash and cash equivalents of the Group amounted to RMB1,970 million are denominated in currencies as follows:

Currencies	RMB'000	Percentage
– Renminbi (“RMB”)	1,739,028	88.29%
– Australian dollars	126,012	6.40%
– United States dollars (“USD”)	39,496	2.00%
– Euros (“EUR”)	57,070	2.90%
– Hong Kong dollars (“HKD”)	3,456	0.17%
– Canadian dollars (“CAD”)	2,567	0.13%
– Others	2,092	0.11%
	<u>1,969,721</u>	<u>100.00%</u>

As at 30 June 2014, total amount of interest-bearing bank and other borrowings were RMB15,530 million which are denominated in currencies as follows:

Currencies	RMB'000	Percentage
– RMB	14,199,958	91.43%
– USD	822,595	5.30%
– EUR	18,915	0.12%
– HKD	483,750	3.11%
– CAD	1,202	0.01%
– Others	4,010	0.03%
	<u>15,530,430</u>	<u>100.00%</u>

Details of the interest-bearing bank and other borrowings are set out as follows:

Repayable:	RMB'000	Percentage
– Within one year	11,752,478	75.67%
– In the second year	1,519,643	9.79%
– In the third to fifth year, inclusive	2,228,146	14.35%
– Beyond five years	30,163	0.19%
	<u>15,530,430</u>	<u>100.00%</u>

Interest rates basis:	RMB'000	Percentage
– Floating rate	4,029,015	25.94%
– Fixed rate	11,501,415	74.06%
	<u>15,530,430</u>	<u>100.00%</u>

Nature of debts:	RMB'000	Percentage
– Unsecured	14,751,570	94.98%
– Secured	778,860	5.02%
	<u>15,530,430</u>	<u>100.00%</u>

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2014, the proportions of purchase and sales from our major suppliers and major customers to our total purchases and sales were as follows:

Purchases

The total purchases from the largest supplier was approximately 4.44% of our total purchases value.

The total purchases from the five largest suppliers was approximately 15.56% of our total purchases value.

Sales

The total sales to the largest customer was approximately 2.92% of our total sales value.

The total sales to the five largest customers was approximately 9.64% of our total sales value.

During the period, none of the directors or supervisors or their respective associates, or to the best of the directors' knowledge, any shareholder who held more than 5% of our shares, held any material rights in our five largest customers or our five largest suppliers.

ASSET MORTGAGE OF THE GROUP

At the end of the reporting period, the interest-bearing bank and other borrowings are secured by certain of the Group's assets:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Property, plant and equipment	280,949	263,785
Land lease prepayments	200,695	205,233
Trade receivables	484,382	549,226
Pledged deposits	<u>2,400</u>	<u>2,400</u>

ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

For the six months ended 30 June 2014, the Group acquired an additional interest in a subsidiary. The details are as follows:

Name of a subsidiary	Date of acquisition	Additional equity interests acquired
Held by the Company: – Hunan Nonferrous Xintianling Tungsten Co., Ltd.	17 January 2014	3.47%

DEBT TO TOTAL ASSETS RATIO

The debt to total assets ratio of the Group increased from 74.89% as at 31 December 2013 to 77.92% as at 30 June 2014. The debt to total assets ratio is equivalent to total liabilities divided by total assets and multiplied by 100%. The debt to total assets ratio increased as the growth rate of total interest-bearing bank and other borrowings was higher than that of total assets.

FLUCTUATION RISK IN FOREIGN EXCHANGE RATE

The Group primarily operates in China, with small quantities of exports to various countries. Apart from the export sales transacted mainly in the USD, the sales income of the Group is denominated in RMB at present. The risk in foreign exchange of the Group primarily arises from the investments in Australia and Canada, of which the sales of products and the purchases of raw materials denominated in foreign currencies. Currently, the Group has neither adopted any formal hedging policy nor executed any foreign exchange contract or derivative to hedge against our currency risk.

RISK IN COMMODITY PRICES

As the trading prices of nonferrous metals of the Group are calculated at the global and local prices which subject to substantial fluctuation, the Group has to bear the risk in fluctuation of commodity prices. The prices of nonferrous metals (as commodities) depend primarily on the market supply and demand in the long run. The Group has managed this risk by execution of commodity futures contracts on a limited basis.

RISK IN INTEREST RATE

The risk in the interest rate concerning the Group primarily relates to our short-term and long-term bank and other borrowings (amounting to RMB15,530 million as at 30 June 2014). Any rise in the current interest rate will increase the interest cost of our short-term loans upon extension. To date, the Group has neither executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

CONTINGENT LIABILITIES

As at 30 June 2014 and 31 December 2013, the Group has no contingent liabilities.

HISTORICAL CAPITAL EXPENDITURE

The following table sets out the capital expenditure of each segment of the Group and their proportions to the segmented capital expenditure of the Group for the six months ended 30 June 2014:

	RMB'000	Percentage
Nonferrous metals mine site	337,534	43.32%
Nonferrous metals smelting	144,291	18.52%
Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds	297,124	38.14%
Corporate and others	140	0.02%
Total	<u>779,089</u>	<u>100.00%</u>

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the persons (other than a Director or Supervisor or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Class of shares	Nature of interests	Number of shares	Approximate percentage of relevant class of share capital	Approximate percentage of total number of shares of the Company	Long/short position
China Minmetals Corporation (Note 1)	Domestic Share	Interest of controlled corporation	1,947,074,266	95.66%	53.08%	Long position
	H Share	Interest of controlled corporation	159,872,000	9.79%	4.36%	Long position
China Minmetals Corporation Limited (Note 2)	Domestic Share	Interest of controlled corporation	1,947,074,266	95.66%	53.08%	Long position
	H Share	Interest of controlled corporation	159,872,000	9.79%	4.36%	Long position
Minmetals Nonferrous Metals Holding Company Limited (Note 3)	Domestic Share	Interest of controlled corporation	1,947,074,266	95.66%	53.08%	Long position
	H Share	Interest of controlled corporation	159,872,000	9.79%	4.36%	Long position
Hunan Nonferrous Metals Holding Group Company Limited (Note 4)	Domestic Share	Beneficial owner	1,947,074,266	95.66%	53.08%	Long position
	H Share	Interest of controlled corporation	159,872,000	9.79%	4.36%	Long position
Hunan Nonferrous Metals Jinsheng Development Co., Ltd. (a wholly-owned subsidiary of Hunan Nonferrous Metals Holding Group Company Limited)	H Share	Beneficial owner	159,872,000	9.79%	4.36%	Long position

Note:

1. China Minmetals Corporation is the controlling shareholder of China Minmetals Corporation Limited, and is therefore deemed to be interested in the domestic shares of the Company held by Hunan Nonferrous Metals Holding Group Company Limited and the H shares of the Company held by Hunan Nonferrous Metals Jinsheng Development Co., Ltd. under the SFO.
2. China Minmetals Corporation Limited is the controlling shareholder of Minmetals Nonferrous Metals Holding Company Limited, and is therefore deemed to be interested in the domestic shares of the Company held by Hunan Nonferrous Metals Holding Group Company Limited and the H shares of the Company held by Hunan Nonferrous Metals Jinsheng Development Co., Ltd. under the SFO.
3. Minmetals Nonferrous Metals Holding Company Limited is the controlling shareholder of Hunan Nonferrous Metals Holding Group Company Limited, and is therefore deemed to be interested in the domestic shares of the Company held by Hunan Nonferrous Metals Holding Group Company Limited and the H shares of the Company held by Hunan Nonferrous Metals Jinsheng Development Co., Ltd. under the SFO.
4. Hunan Nonferrous Metals Holding Group Company Limited is directly interested in 1,947,074,266 domestic shares of the Company, and indirectly interested in 159,872,000 H shares of the Company through Hunan Nonferrous Metals Jinsheng Development Co., Ltd. (a wholly-owned subsidiary of Hunan Nonferrous Metals Holding Group Company Limited).

Save as disclosed above, as at 30 June 2014, the Directors are not aware of any other person (other than a Director, Supervisor or the Chief Executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would be required to be entered in the register kept under section 336 of the SFO.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN CONTRACTS

None of Directors, Supervisors and Chief Executive had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the period.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Stock Appreciation Rights Plan

The extraordinary shareholders meeting that held on 25 September 2006 authorised, among other things, the resolution of the preliminary grant of stock appreciation rights ("Stock Appreciation Rights") pursuant to the Stock Appreciation Rights Plan, details of which were set out in the section "Stock Plan" in the Prospectus dated 21 March 2006. This move was intended to attract, retain and encourage senior executive officers and key staff who have made great contributions to the Group as well as to enhance the profitability and values of the Group.

Listed below are recipients of the Stocks and respective number of allocated stock as of 30 June 2014:

Name	Stock Appreciation Rights	Note
He Renchun	1,282,051	Former Chairman of Board of Directors and Executive Director (Resigned on 23 August 2010)
Cao Xiuyun	1,025,641	Vice Chairman of Board of Directors and Non-Executive Director
Li Li	897,436	Former Executive Director and General Manager (Resigned on 22 April 2014)
Zeng Shaoxiong	769,231	Former Chairman of the Supervisory Committee (Resigned on 10 November 2010)
Liao Luhai	769,231	Former Executive Director (Resigned on 27 December 2013)
Chen Zhixin	769,231	Former Non-executive Director (Resigned on 20 August 2014)
Wu Longyun	641,027	Former Non-executive Director (Resigned on 10 November 2010)
He Hongsen	641,026	Supervisor
Zhang Yixian	641,026	Former Non-executive Director (Resigned on 10 November 2010)
Yang Bohua	512,820	Senior Officer of a Subsidiary
Fu Shaowu	512,820	Former Senior Officer of a Subsidiary (Resigned on 19 July 2012)
Yang Lingyi	512,820	Former Senior Officer of a Subsidiary (Resigned in December 2009)
Hong Mingyang	512,820	Former Deputy General Manager (Resigned on 25 November 2013)
Zhu Chongzhou	512,820	Former Senior Officer of a Subsidiary (Resigned in May 2010)
Total:	<u>10,000,000</u>	

The initial exercise price of the stock appreciation rights, which will be determined as the higher of the closing price of the first trading day following the 30th trading day after the Company being listed on the Stock Exchange and the average closing price of the five trading days following the 30th trading day after the Company being listed on the Stock Exchange, was HKD2.8 per share. The stock appreciation rights would expiry after eight years from the date of issued. No stock appreciation rights were exercised by the grantees during the period ended 30 June 2014.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2014, none of the Directors, Supervisors and Chief Executive had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director, Supervisor and chief executive or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

The Company is committed to improving its corporate governance and enhancing its transparency to shareholders. In the opinion of the Board, save as disclosed below, for the six months ended 30 June 2014, the Company has complied with the code provisions of the Code on Corporate Governance set out in Appendix 14 of the Listing Rules.

During the reporting period, the Company held one shareholders general meeting. All directors have attended the meeting.

BOARD OF DIRECTORS

At the end of the reporting period, our board of directors consists of twelve directors: four Executive Directors, four Non-Executive Directors and four Independent Non-Executive Directors. ^(note 1)

The attendance of directors to board meetings is as follows:

Name	Number of board meetings attended during the period under review
Li Fuli (<i>Chairman of board of directors</i>)	4 out of 4
Cao Xiuyun	4 out of 4
Li Li (Resigned on 22 April 2014)	2 out of 2
Deng Yingjie	4 out of 4
He Yawen (Appointed on 22 April 2014)	1 out of 1
Guo Wenzhong (Resigned on 19 June 2014)	3 out of 3
Wu Xiaopeng (Appointed on 19 June 2014)	0 out of 0
Huang Guoping (Resigned on 20 August 2014)	4 out of 4
Chen Zhixin (Resigned on 20 August 2014)	4 out of 4
Yang Guang	3 out of 4
Kang Yi (Resigned on 6 August 2014)	3 out of 4
Gu Desheng (Resigned on 6 June 2014)	3 out of 3
Chen Xiaohong	4 out of 4
Wan Ten Lap	4 out of 4
Choi Man Chau, Michael	4 out of 4

SUPERVISORY COMMITTEE

The Company has a Supervisory Committee comprising eight supervisors to exercise supervision over the Board, its members and senior management and prevent them from abusing their power and authorities and jeopardising the legal interests of the shareholders, the Company and its employees. The Supervisory Committee held one meeting during the six months ended 30 June 2014. All Supervisors have attended the meeting.

Note 1: A resolution approving the proposed change of the number of directors of the Board in the Articles of Association of the Company to nine, of which three shall be independent non-executive directors, had been passed at a Board meeting held on 20 August 2014, pending consideration and approval at a shareholders' general meeting. For details, please refer to the Company's announcement dated 20 August 2014.

AUDIT COMMITTEE

The Company has an audit committee comprising two Independent Non-Executive Directors and one Non-Executive Director to review the Company's financial reports and internal control system, consider the appointment of Independent Auditors, provide recommendation to the Board, approve audit and audit related services, and supervise the Company's internal financial reporting procedures and management policies.

The interim results for the six months ended 30 June 2014 are unaudited. It has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", and has been reviewed by the Audit Committee of the Company and by the Independent Auditors, Baker Tilly Hong Kong Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity", who has issued an un-modified review report to the Board and Audit Committee.

The Audit Committee was of the opinion that the unaudited results were prepared in compliance with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure has been made. The Committee has held one meeting during the six months ended 30 June 2014, which was attended by all members.

REMUNERATION AND ASSESSMENT COMMITTEE

A remuneration and assessment committee has been established by the Company. The duties of the Remuneration and Assessment Committee include: to evaluate the standard for assessing the performance of directors and managers, conduct assessment and provide recommendation, propose the remuneration package of individual executive director and senior management to the Board, evaluate and review the remuneration policy and plan of directors and senior management. As at 5 June 2014, the Committee consists of one non-executive director, Mr. Cao Xiuyun, one executive director, Ms. Deng Yingjie, and three independent non-executive directors, Mr. Choi Man Chau, Michael, Mr. Gu Desheng and Mr. Wan Ten Lap. Mr. Wan Ten Lap is the chairman of the Remuneration and Assessment Committee. As Mr. Gu Desheng resigned as an independent non-executive director on 6 June 2014, the Remuneration and Assessment Committee failed to comply with Rule 3.25 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") following 6 June 2014 that the remuneration committee of a listed issuer shall comprise a majority of independent non-executive directors. The number of members of the Remuneration and Assessment Committee had been changed to three at a Board meeting held on 20 August 2014, of which two are independent non-executive directors, in order to meet the requirements of Rule 3.25 of the Listing Rules.

NOMINATION COMMITTEE

Pursuant to Code Provision A.5.1 of the Code on Corporate Governance in Appendix 14 of the Hong Kong Listing Rules, the majority members of the nomination committee should be independent non-executive directors. The Company has not complied with the above requirement during the period from 6 June 2014, the date of resignation of Mr. Gu Desheng, to re-election of a member of the Nomination Committee on 20 August 2014. The Company has been adjusted the composition of the nomination committee in the Board meeting which held on 20 August 2014, in order to comply with the requirements of the Code.

INDEPENDENT NON-EXECUTIVE DIRECTOR

During the reporting period, the Company has complied with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of a sufficient number of Independent Non-Executive Directors and at least one of the Independent Non-Executive Directors has appropriate professional qualifications or has appropriate accounting or related financial management expertise. Of the Independent Non-Executive Directors appointed by the Company, one Independent Non-Executive Director has the expertise in financial management. ^(note 1)

Note 1: Mr. Gu Desheng resigned as an independent non-executive director on 6 June 2014, and Mr. Kang Yi resigned as an independent non-executive director on 6 August 2014. After resignation of Mr. Kang Yi, the Company has only three independent non-executive directors, a number which is less than the minimum requirement specified in Rule 3.1A of the Listing Rules. As Mr. Huang Guoping and Mr. Chen Zhixin resigned at the conclusion of the Board meeting held on 20 August 2014, the number of independent non-executive directors satisfies the requirement of Rule 3.1A of the Listing Rules.

MODEL CODE FOR DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors and Supervisors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiries with all the Directors and Supervisors of the Company, the Directors and Supervisors confirmed that they had complied with the required standards as set out in the Model Code for the six months ended 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the reporting period.

PUBLICATION OF THE INTERIM REPORT ON WEBSITE

The 2014 interim report containing the financial information required to be disclosed under Appendix 16 of the Listing Rules, will be dispatched to the shareholders and available on the websites of the Stock Exchange and the Company in due course.

On behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders for their trust, support and understanding.

By Order of the Board
Li Fuli
Chairman

Changsha, the PRC, 20 August 2014

As at the date of this announcement, the board of directors of the Company comprises Mr. Li Fuli, Ms. Deng Yingjie, Mr. He Yawen, and Mr. Wu Xiaopeng as executive directors, Mr. Cao Xiuyun and Mr. Yang Guang as non-executive directors and Mr. Wan Ten Lap, Mr. Choi Man Chau, Michael and Ms. Chen Xiaohong as independent non-executive directors.

* For identification purpose only