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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The board of directors (the "Board") of Hunan Nonferrous Metals Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the audited results for the year ended 31 December 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---|------|-----------------|-------------------------------|
| Revenue | 3 | 31,097,611 | 25,582,719 |
| Cost of sales | | (29,167,475) | (23,844,947) |
| Gross profit | | 1,930,136 | 1,737,772 |
| Other income | 4 | 796,517 | 497,978 |
| Selling and distribution costs | | (438,076) | (411,913) |
| Administrative expenses | | (1,287,887) | (1,289,521) |
| Other expenses, net | | (8,191) | (63,392) |
| Impairment of property, plant and equipment (Provision for)/reversal of impairment of trade and other receivables | | (7,202) | 19,276 |
| Finance income | | 22,981 | 30,703 |
| Finance costs | | (704,667) | (791,954) |
| Share of profit of an associate | | 10,162 | 15,523 |
| Profit/(loss) before income tax | 5 | 311,673 | (307,441) |
| Income tax expense | 6 | (69,642) | (129,167) |
| Profit/(loss) for the year | | 242,031 | (436,608) |
| Attributable to: | | | |
| Owners of the Company | | 203,990 | 6,602 |
| Non-controlling interests | | 38,041 | (443,210) |
| Profit/(loss) for the year | | 242,031 | (436,608) |
| Earnings per share | | | |
| Basic and diluted | 8 | RMB5.56 cents | RMB0.18 cents |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

| | 2013 | 2012 |
|--|------------------------|-------------------------|
| | RMB'000 | RMB'000 |
| | | (Restated) |
| Profit/(loss) for the year | <u>242,031</u> | <u>(436,608)</u> |
| Other comprehensive (loss)/income for the year, net of tax: | | |
| <i>Item that will not be reclassified to profit or loss</i> | | |
| Remeasurements of defined benefit retirement schemes | <u>24,815</u> | <u>1,716</u> |
| Item that will not be reclassified to profit or loss | <u>24,815</u> | <u>1,716</u> |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Exchange differences arising on translation of foreign operations | (171,064) | 4,754 |
| Disposal of available-for-sale financial assets | (130,132) | (11,731) |
| Changes in fair value of available-for-sale financial assets | <u>2,175</u> | <u>(4,600)</u> |
| Items that may be reclassified subsequently to profit or loss | <u>(299,021)</u> | <u>(11,577)</u> |
| Other comprehensive loss for the year, net of tax | <u>(274,206)</u> | <u>(9,861)</u> |
| Total comprehensive loss for the year | <u><u>(32,175)</u></u> | <u><u>(446,469)</u></u> |
| Attributable to: | | |
| Owners of the Company | 16,308 | (1,433) |
| Non-controlling interests | <u>(48,483)</u> | <u>(445,036)</u> |
| Total comprehensive loss for the year | <u><u>(32,175)</u></u> | <u><u>(446,469)</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2013

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 (Restated) | 1 January 2012 RMB'000 (Restated) |
|--|------|--------------------------------|--|--|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | 9,954,412 | 9,181,833 | 8,606,546 |
| Investment properties | | — | — | 3,405 |
| Land lease prepayments | | 949,704 | 958,034 | 977,488 |
| Intangible assets | | 1,543,375 | 1,332,110 | 1,293,567 |
| Other assets | | 731,908 | 876,978 | 801,588 |
| Goodwill | | 79,547 | 79,547 | 79,547 |
| Interest in an associate | | 63,489 | 66,977 | 55,744 |
| Available-for-sale financial assets | | 41,963 | 181,084 | 226,100 |
| Deferred tax assets | | 128,365 | 78,224 | 100,932 |
| Total non-current assets | | <u>13,492,763</u> | <u>12,754,787</u> | <u>12,144,917</u> |
| CURRENT ASSETS | | | | |
| Inventories | | 6,022,444 | 6,361,344 | 6,253,246 |
| Trade receivables | 9 | 1,210,499 | 1,660,269 | 732,367 |
| Bills receivable | | 961,262 | 786,370 | 1,338,075 |
| Prepayments, deposits and other receivables | | 1,662,433 | 1,455,589 | 1,374,926 |
| Tax recoverable | | 22,184 | 66,956 | 64,040 |
| Pledged deposits | | 6,900 | 78,116 | 55,093 |
| Non-pledged time deposits with maturity over three months from date of deposits | | 4,441 | 771 | 5,000 |
| Cash and cash equivalents | | <u>1,781,974</u> | <u>640,009</u> | <u>1,903,273</u> |
| Total current assets | | <u>11,672,137</u> | <u>11,049,424</u> | <u>11,726,020</u> |
| CURRENT LIABILITIES | | | | |
| Trade payables | 10 | 1,244,948 | 1,519,075 | 1,208,865 |
| Bills payable | | 42,493 | 513,279 | 87,518 |
| Other payables and accruals | | 1,737,227 | 3,347,037 | 2,091,308 |
| Interest-bearing bank and other borrowings | | 10,107,094 | 7,324,397 | 10,182,461 |
| Tax payable | | 64,709 | 44,315 | 90,731 |
| Dividend payable | | 61,901 | 61,901 | 61,933 |
| Total current liabilities | | <u>13,258,372</u> | <u>12,810,004</u> | <u>13,722,816</u> |
| NET CURRENT LIABILITIES | | <u>(1,586,235)</u> | <u>(1,760,580)</u> | <u>(1,996,796)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>11,906,528</u> | <u>10,994,207</u> | <u>10,148,121</u> |

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 (Restated) | 1 January 2012 RMB'000 (Restated) |
|---|------|--------------------------------|--|--|
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing bank and other borrowings | | 4,016,910 | 3,863,969 | 2,642,093 |
| Other liabilities | | 659,325 | 702,192 | 721,994 |
| Payables for mining rights | | 101,120 | 103,694 | 105,320 |
| Government grants | | 609,518 | 628,103 | 332,913 |
| Deferred tax liabilities | | 201,242 | 212,744 | 248,738 |
| Total non-current liabilities | | <u>5,588,115</u> | <u>5,510,702</u> | <u>4,051,058</u> |
| NET ASSETS | | <u>6,318,413</u> | <u>5,483,505</u> | <u>6,097,063</u> |
| EQUITY | | | | |
| Equity attributable to owners of the Company | | | | |
| Share capital | 11 | 3,668,058 | 3,668,058 | 3,668,058 |
| Reserves | | <u>352,317</u> | <u>630,466</u> | <u>651,328</u> |
| | | 4,020,375 | 4,298,524 | 4,319,386 |
| Non-controlling interests | | <u>2,298,038</u> | <u>1,184,981</u> | <u>1,777,677</u> |
| TOTAL EQUITY | | <u>6,318,413</u> | <u>5,483,505</u> | <u>6,097,063</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board on historical cost basis, except certain financial assets and liabilities measured at fair value. The statements are also in compliance with the relevant disclosure provisions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the relevant investment market rules.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(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 2013:

| | |
|--|--|
| IFRS 7 (Amendments) | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| IFRS 10 | Consolidated Financial Statement |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 10, IFRS 11, IFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| IFRS 13 | Fair Value Measurement |
| IAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income |
| IAS 19 (as revised in 2011) | Employee Benefits |
| IAS 27 (as revised in 2011) | Separate Financial Statements |
| IAS 28 (as revised in 2011) | Investments in Associate and Joint Ventures |
| IFRIC Interpretation - 20 | Stripping Costs in the Production Phase of a Surface Mine |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2009 – 2011 Cycle, except for IAS 1 (Amendments) |

Except as described below, the adoption of these amendments to IFRSs had no material effects on the amounts reported and disclosures set out in this consolidated financial statements.

IFRS 10 Consolidated financial statements

IFRS 10 replaces the parts of IAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and SIC – Interpretation 12 “Consolidation – Special purpose entities”. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all of the three criteria, including (a) an investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has the ability to use its power over the investee to affect the amount of the investor’s returns, must be met. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Much more guidance has been included in IFRS 10 to explain when an investor has control over an investee. In particular, detailed guidance has been established in IFRS 10 to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. For example, in assessing whether an investor with less than a majority of the voting rights in an investee has a sufficiently dominant voting interest to meet the power criterion, IFRS 10 requires the investor to take into account all relevant facts and circumstances including the size of the investor’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders, rights arising from other contractual arrangements, and any additional facts and circumstances, including voting patterns at previous shareholders’ meetings.

The adoption of IFRS 10 has affected the Group’s accounting for the interest in Zhongwu Gaoxin Materials Company Limited (“Zhongwu Gaoxin”).

On 12 October 2006, the Company completed the acquisition of 27.78% and 3.15% equity interests in Zhongwu Gaoxin, a company listed on Shenzhen Stock Exchange, from two independent third parties. Zigong Cemented Carbides Company Limited (“Zigong”), a 80% owned subsidiary of the Company, also held a 14.97% equity interests in Zhongwu Gaoxin, thus the Company directly and indirectly held 42.91% equity interests in Zhongwu Gaoxin after the acquisitions.

Pursuant to the share reform plan of Zhongwu Gaoxin implemented on 26 October 2006, the Group is required to grant certain of their shareholdings in Zhongwu Gaoxin to the public shareholders of Zhongwu Gaoxin in order to convert the state-owned non-tradable shares held by the Company and Zigong into tradable shares. Thereafter the shareholding of the Group was diluted from 42.91% to 32.98%.

During 2008, the Company acquired the shares of Zhongwu Gaoxin owned by Zigong, and thus the Company held 35.28% equity interests in Zhongwu Gaoxin since then. The remaining 64.72% of the shares are owned by numerous widely dispersed shareholders. No other individual shareholders holds more than 5% interests in Zhongwu Gaoxin since 12 October 2006 and up to the date of these condensed consolidated interim financial information. At present, the directors nominated by the Company have formed the majority of the board of directors of Zhongwu Gaoxin.

In current year, the directors examined the effect of application of IFRS 10 taking into account all the relevant facts and circumstances, including the Group's dominant voting interest in Zhongwu Gaoxin, dispersion of holding of other vote holders, participation rates of shareholders and voting patterns in previous shareholders' meetings and concluded that the Group did not lose control over Zhongwu Gaoxin since 12 October 2006 despite its shareholding therein has been less than 50% and that Zhongwu Gaoxin qualified as a subsidiary of the Group under IFRS 10 throughout the relevant reporting periods. Accordingly, the financial information of Zhongwu Gaoxin is consolidated retrospectively for all relevant periods as if the Group has not lost control over Zhongwu Gaoxin since 12 October 2006. The impact of the Group's consolidated financial statements is set out below.

In addition, the Group has applied the transitional guidance under IFRS 10 which only requires an entity to present the quantitative information for the annual period immediately preceding the date of initial application of IFRS 10 notwithstanding the requirements of paragraph 28 of IAS 8 "Accounting policies, changes in accounting estimates and errors". As such, the Group has not presented the impacts on consolidated financial statements for the year ended 31 December 2013.

(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 2013 and have not been early adopted:

| | |
|---|---|
| IFRS 9 | Financial Instruments ³ |
| IFRS 9 and IFRS 7 (Amendments) | Mandatory Effective Date of IFRS 9 and Transition Disclosures ³ |
| IFRS 10, IFRS 12 and IAS 27 (as revised in 2011) (Amendments) | Investment Entities ¹ |
| IFRS 14 | Regulatory Deferral Accounts ⁴ |
| IAS 19 (Amendments) | Defined Benefit Plans: Employee Contributions ² |
| IAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities ¹ |
| IAS 36 (Amendments) | Recoverable Amount Disclosures for Non-Financial Assets ¹ |
| IAS 39 (Amendments) | Novation of Derivatives and Continuation of Hedge Accounting ¹ |
| IFRIC Interpretation - 21 | Levies ¹ |
| IFRS (Amendments) | Annual Improvements to IFRSs 2010 – 2012 cycle ² |
| IFRS (Amendments) | Annual Improvements to IFRSs 2011 – 2013 cycle ² |

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

² Effective for annual periods beginning on or after 1 July 2014.

³ Available for application – the mandating effective date will be determined when the outstanding phases of IFRS 9 are finalised.

⁴ Effective for annual periods beginning on or after 1 January 2016.

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. This board of directors review 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 needed to make strategic decisions.

Summary details of the business segments are as follows:

- (a) Nonferrous metal mine sites 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, and tungsten, molybdenum, tantalum, niobium and their compounds.

(1) Business segments

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2013 and 2012 is as follows:

| Year ended 31 December 2013 | 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 |
|--|--|--|--|------------------------------------|-------------------------|-------------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 5,706,886 | 16,072,217 | 9,465,637 | - | - | 31,244,740 |
| Inter-segment sales | 273,771 | 425 | - | - | (274,196) | - |
| Less: Sales tax and surcharges | (69,169) | (11,711) | (66,249) | - | - | (147,129) |
| Total | 5,911,488 | 16,060,931 | 9,399,388 | - | (274,196) | 31,097,611 |
| Segment profit/(loss) | 419,622 | 250,158 | 432,805 | (196,113) | - | 906,472 |
| Dividend income and gains on disposal of available-for-sale financial assets | - | - | - | - | - | 99,706 |
| Finance costs | - | - | - | - | - | (704,667) |
| Share of profit of an associate | - | - | - | - | - | 10,162 |
| Profit before income tax | - | - | - | - | - | 311,673 |
| Income tax expense | - | - | - | - | - | (69,642) |
| Profit for the year | - | - | - | - | - | 242,031 |

| Year ended 31 December 2013 | 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 | Consolidated RMB'000 |
|--|--|--|--|------------------------------------|-------------------------|
| Assets and liabilities: | | | | | |
| Segment assets | 12,344,010 | 6,272,280 | 6,146,682 | 145,927 | 24,908,899 |
| Interest in an associate | — | — | — | — | 63,489 |
| Unallocated assets | — | — | — | — | 192,512 |
| Total assets | | | | | 25,164,900 |
| Segment liabilities | 1,635,778 | 1,219,228 | 1,109,781 | 491,745 | 4,456,532 |
| Unallocated liabilities | — | — | — | — | 14,389,955 |
| Total liabilities | | | | | 18,846,487 |
| Other segment information: | | | | | |
| Depreciation and amortisation | 283,265 | 198,793 | 482,447 | 3,456 | 967,961 |
| Write-down of inventories | 13,845 | 97,876 | 22,171 | — | 133,892 |
| Impairment of available-for-sales financial assets | — | — | 236 | — | 236 |
| Impairment of property, plant and equipment | 2,100 | — | — | — | 2,100 |
| Provision for impairment of trade and other receivables | 1,602 | 1,838 | 3,762 | — | 7,202 |
| Capital expenditures | 963,748 | 446,256 | 550,452 | 974 | 1,961,430 |

| Year ended 31 December 2012 (Restated) | Nonferrous | Nonferrous | Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds | Corporate and others | Eliminations | Consolidated |
|--|--------------------------------|------------------------------|---|-------------------------|------------------|-------------------------|
| | metal mine sites RMB'000 | metal smelting RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 5,760,047 | 12,186,165 | 7,766,956 | — | — | 25,713,168 |
| Inter-segment sales | 411,915 | 631 | — | — | (412,546) | — |
| Less: Sales tax and surcharges | (59,803) | (9,683) | (60,963) | — | — | (130,449) |
| Total | <u>6,112,159</u> | <u>12,177,113</u> | <u>7,705,993</u> | <u>—</u> | <u>(412,546)</u> | <u>25,582,719</u> |
| Segment profit/(loss) | <u>126,894</u> | <u>(265,765)</u> | <u>591,248</u> | <u>1,898</u> | <u>—</u> | <u>454,275</u> |
| Dividend income and gains on disposal of available-for-sale financial assets | — | — | — | — | — | 14,715 |
| Finance costs | — | — | — | — | — | (791,954) |
| Share of profit of an associate | — | — | — | — | — | 15,523 |
| Loss before income tax | | | | | | <u>(307,441)</u> |
| Income tax expense | — | — | — | — | — | <u>(129,167)</u> |
| Loss for the year | | | | | | <u><u>(436,608)</u></u> |

| Year ended 31 December 2012 (Restated) | Nonferrous | Nonferrous | Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds | Corporate and others | Consolidated |
|--|--------------------------------|------------------------------|---|-------------------------|-------------------|
| | metal mine sites RMB'000 | metal smelting RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Assets and liabilities: | | | | | |
| Segment assets | 8,706,516 | 6,156,738 | 8,363,379 | 184,337 | 23,410,970 |
| Interest in an associate | — | — | — | — | 66,977 |
| Unallocated assets | — | — | — | — | 326,264 |
| Total assets | | | | | 23,804,211 |
| Segment liabilities | 1,679,761 | 1,615,271 | 3,134,068 | 446,181 | 6,875,281 |
| Unallocated liabilities | — | — | — | — | 11,445,425 |
| Total liabilities | | | | | 18,320,706 |
| Other segment information: | | | | | |
| Depreciation and amortisation | 303,570 | 194,111 | 380,578 | 3,314 | 881,573 |
| Write-down of inventories | 72,420 | 154,489 | 25,856 | — | 252,765 |
| Impairment of other assets | 7,482 | — | — | — | 7,482 |
| Impairment of available-for-sales financial assets | 2,451 | — | 241 | — | 2,692 |
| Impairment of property, plant and equipment | 51,913 | — | — | — | 51,913 |
| Provision for/(reversal of) impairment of trade and other receivables | 2,637 | 903 | 8,587 | (31,403) | (19,276) |
| Capital expenditures | 800,218 | 267,150 | 571,993 | 4,548 | 1,643,909 |

(2) Geographical segment

The Group's operations and assets are principally carried out and located in the PRC, thus no geographical segment analysis is presented.

(3) Major customers

No single customer accounted for 10% or more of the total revenue for the year ended 31 December 2013 and 2012.

3. REVENUE

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

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|--------------------------------|--------------------------|-------------------------------|
| Sale of goods | 31,244,740 | 25,713,168 |
| Less: Sales tax and surcharges | <u>(147,129)</u> | <u>(130,449)</u> |
| | <u><u>31,097,611</u></u> | <u><u>25,582,719</u></u> |

4. OTHER INCOME

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---|-----------------------|-------------------------------|
| Dividend income | 3,442 | 3,066 |
| Profit from sales of scrap products and raw materials | 198,362 | 144,742 |
| Penalty income | 1,137 | 583 |
| Gains on disposal of subsidiaries | — | 17,736 |
| Net gains on disposal of available-for-sale financial assets | 96,264 | 11,649 |
| Net gains on disposal of property, plant and equipment | — | 3,647 |
| Gains on disposal of investment properties | — | 4,301 |
| Net gains on disposal of land lease prepayments | 1,862 | — |
| Gross rental income | 13,977 | 10,215 |
| Recognition of government grants | 439,951 | 233,666 |
| Rendering of services | 973 | 10,973 |
| Net realised and unrealised gains on derivative financial instruments | 23,844 | 31,873 |
| Trade and other payables and accruals waived | — | 9,461 |
| Others | <u>16,705</u> | <u>16,066</u> |
| | <u><u>796,517</u></u> | <u><u>497,978</u></u> |

5. PROFIT/(LOSS) BEFORE INCOME TAX

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

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|--|------------------|-------------------------------|
| Cost of inventories sold | 29,167,475 | 23,844,947 |
| Staff costs (including directors' and supervisors' remuneration): | | |
| – Wages, salaries and bonuses | 1,416,212 | 1,369,131 |
| – Stock appreciation rights* | (4,977) | 2,067 |
| – Contributions to defined contribution pension schemes | 403,020 | 447,889 |
| – Cost of supplementary pension subsidies and early retirement benefits: | | |
| – current service costs* | 3,454 | 3,455 |
| – amortisation of prior service costs* | 1,585 | (3,384) |
| – interest costs* | 15,134 | 15,142 |
| | 20,173 | 15,213 |
| – Welfare and other expenses | 350,250 | 294,386 |
| | <u>2,184,678</u> | <u>2,128,686</u> |
| Auditor's remuneration* | | |
| – Audit services | 6,051 | 8,400 |
| – Non-audit services | 4,748 | 4,643 |
| | 10,799 | 13,043 |
| Depreciation of property, plant and equipment | 888,549 | 789,387 |
| Depreciation of investment properties | – | 173 |
| Amortisation of land lease prepayments | 23,471 | 23,587 |
| Amortisation of intangible assets: | | |
| – Mining rights | 42,565 | 38,475 |
| – Technical know-how and others* | 13,376 | 12,843 |
| | <u>55,941</u> | <u>51,318</u> |

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Amortisation of other assets | — | 17,108 |
| Minimum lease payments under operating leases in respect of land: | | |
| – Lease of land from HNG | 15,125 | 15,125 |
| – Lease of land from other parties | 10,110 | 9,439 |
| | <u>25,235</u> | <u>24,564</u> |
| Write-down of inventories | 133,892 | 252,765 |
| Impairment of property, plant and equipment | 2,100 | 51,913 |
| Provision for/(reversal of) impairment of trade and other receivables | 7,202 | (19,276) |
| Exchange losses/(gains), net* | 7,200 | (25,907) |
| Research and development costs* | 190,349 | 167,419 |
| Donations* | 2,055 | 2,082 |
| Other expenses, net: | | |
| Price participation payment to ex-owner of a subsidiary | — | 35,670 |
| Loss on disposal of a subsidiary | 141 | — |
| Impairment of available-for-sales financial assets | 236 | 2,692 |
| Impairment of other assets | — | 7,482 |
| Net losses on disposal of property, plant and equipment | 402 | — |
| Net losses on disposal of utilities | 3,442 | 16,379 |
| Others | 3,970 | 1,169 |
| | <u>8,191</u> | <u>63,392</u> |

* Items classified under "Administrative expenses" on the face of the consolidated statement of profit or loss.

6. 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.

The PRC corporate income tax ("CIT") has been provided at a rate of 25% (2012: 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 (the "PRC GAAP"), 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. ("Zhuye")
- (b) Zhuzhou Cemented Carbides Group Corp., Ltd. ("Zhuying")
- (c) Hunan Shizhuyuan Nonferrous Metals Co., Ltd. ("Shizhuyuan")
- (d) Zhuzhou Diamond Cutting Tools Company Limited
- (e) Hsikwangshan Twinkling Star Antimony Co., Ltd
- (f) Shenzhen Jinzhou Jingong Scientific and Technological Company Limited ("Shenzhen Jinzhou")
- (g) Zigong
- (h) Chengdu Keruide High-Tech New Materials Co., Ltd.
- (i) Zigong Tungsten Carbide Co., Ltd.
- (j) 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:

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---|----------------------|-------------------------------|
| Current tax – CIT | | |
| Provision for the year | 118,166 | 111,669 |
| Under-provision in respect of prior years | 2,003 | 8,461 |
| | <u>120,169</u> | <u>120,130</u> |
| Deferred tax (note 23) | | |
| Temporary differences | (50,527) | 9,037 |
| Income tax expense | <u><u>69,642</u></u> | <u><u>129,167</u></u> |

A reconciliation of income tax expense applicable to profit/(loss) before income tax using the statutory corporate income tax rate in the PRC in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective tax rate, and a reconciliation of the applicable tax rates (i.e. the statutory tax rate) to the effective tax rate, are as follows:

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---|-----------------|-------------------------------|
| Profit/(loss) before income tax | <u>311,673</u> | <u>(307,441)</u> |
| Tax at the applicable income tax rate 25% (2012: 25%) | 77,918 | (76,860) |
| Tax effect of: | | |
| – Share of profit of an associate | (2,541) | (3,881) |
| – Income not subject to tax | (127,110) | (120,874) |
| – Tax losses not recognised | 49,877 | 181,317 |
| – Differential tax rates on the assessable profits and losses of certain subsidiaries | (40,909) | 25,499 |
| – Income tax benefit from purchase of local machinery | – | (18,811) |
| – Expenses not deductible for tax and others | 188,350 | 139,435 |
| – Utilisation of tax losses previously not recognised | (77,946) | (5,119) |
| Under-provision in respect of prior years | <u>2,003</u> | <u>8,461</u> |
| Income tax expense | <u>69,642</u> | <u>129,167</u> |

Income tax recognised in other comprehensive (income)/loss

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Deferred tax | | |
| Arising from recognition of other comprehensive (income)/loss: | | |
| – Remeasurements of defined benefit retirement scheme | (4,701) | (805) |
| – Changes in fair value of available-for-sale financial assets | (426) | 23,334 |
| – Disposal of available-for-sale financial assets | <u>–</u> | <u>2,070</u> |
| | <u>(5,127)</u> | <u>24,599</u> |

7. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year (2012: RMBNil).

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB203,990,000 (2012: RMB6,602,000) by the weighted average number of ordinary shares of approximately 3,668,058,000 shares (2012: 3,668,058,000 shares) in issue during the year.

(b) Diluted

The diluted earnings per share for the years presented are the same as the basic earnings per share as there are no dilutive ordinary shares during the years.

9. 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 the invoice date, is as follows:

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---------------------------------|------------------|-------------------------------|
| Within 1 year | 1,209,095 | 1,658,579 |
| Over 1 year but within 2 years | 16,589 | 12,803 |
| Over 2 years but within 3 years | 6,889 | 2,979 |
| Over 3 years | 48,351 | 54,058 |
| | <u>1,280,924</u> | <u>1,728,419</u> |
| Less: Provision for impairment | <u>(70,425)</u> | <u>(68,150)</u> |
| | <u>1,210,499</u> | <u>1,660,269</u> |

The movements in provision for impairment of trade receivables are as follows:

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| At 1 January | 68,150 | 63,783 |
| Provision for/(reversal of) impairment | 5,593 | 6,862 |
| Uncollectible amounts written off | <u>(3,318)</u> | <u>(2,495)</u> |
| At 31 December | <u>70,425</u> | <u>68,150</u> |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB70,425,000 (2012: RMB68,150,000). The individually impaired trade receivables relate to customers that were in financial difficulties and almost all of the receivables cannot be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables (net of impairment) that are not considered to be impaired is as follows:

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|-------------------------------|------------------|-------------------------------|
| Neither past due nor impaired | 691,020 | 1,360,344 |
| Less than 3 months past due | 466,243 | 261,896 |
| 3 to 9 months past due | 38,360 | 27,549 |
| More than 9 months past due | 14,876 | 10,480 |
| | <u>1,210,499</u> | <u>1,660,269</u> |

10. TRADE PAYABLES

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

| | 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---------------------------------|------------------|-------------------------------|
| Within 1 year | 1,187,667 | 1,478,298 |
| Over 1 year but within 2 years | 38,308 | 25,466 |
| Over 2 years but within 3 years | 4,777 | 2,963 |
| Over 3 years | 14,196 | 12,348 |
| | <u>1,244,948</u> | <u>1,519,075</u> |

11. SHARE CAPITAL

| | 2013 RMB'000 | 2012 RMB'000 |
|------------------------------------|------------------|------------------|
| Registered, issued and fully paid: | | |
| - Domestic shares of RMB1.00 each | 2,035,330 | 2,035,330 |
| - H shares of RMB1.00 each | 1,632,728 | 1,632,728 |
| | <u>3,668,058</u> | <u>3,668,058</u> |

12. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

| | 2013 RMB'000 | 2012 RMB'000 |
|-----------------------------------|-----------------|-----------------|
| Contracted, but not provided for: | | |
| – Property, plant and equipment | 610,463 | 346,458 |
| – Others | 5,613 | 30,691 |
| | <u>616,076</u> | <u>377,149</u> |

RESULTS AND DIVIDEND

In 2013, the turnover of the Group was RMB31,097.61 million, representing an increase of 21.56% as compared with 2012. The profit attributable to equity holders of the parent was RMB204.00 million (2012: RMB6.60 million). The basic earnings per share of the Group was RMB5.56 cents. The Board does not recommend the payment of dividend for the twelve months ended 31 December 2013 (2012: RMB Nil).

BUSINESS REVIEW

2013 was marked by a sluggish recovery of world economy, slowdown economic growth in China and persisting weak demand for non-ferrous metals. Except for tungsten concentrates which recorded a year-on-year surge in price driven by news about rising purchase and inventory volume in China, most of the Group's main products recorded different extents of decrease in average sales price, especially for the price of antimony products which decreased sharply as compared with the corresponding period last year. Facing with an operating environment which was more challenging than last year, the Group targeted at turning loss into profit while ensuring security and stability, fully implemented measures for "three decreases, two increases and one acceleration" (i.e., reduced our costs, general expenses and the proportion of our three major expense items, enhanced our productivity and efficiency as well as accelerating our projects in progress), carried out stringent control of operation risks and comprehensive tapping of potential benefits, hence better achieving smooth operation of production and improved business efficiency.

During the reporting period of 2013, the Group's production of zinc was 536,739 tonnes, representing an increase of 7.59% as compared with the corresponding period last year; production of lead was 100,339 tonnes, representing an increase of 16.91% as compared with the corresponding period last year; production of antimony was 30,579 tonnes, representing a decrease of 14.13% as compared with the corresponding period last year; production of cemented carbides was 8,354 tonnes, representing an increase of 7.85% as compared with the corresponding period last year; production of tungsten concentrates was 10,224 tonnes, representing an increase of 6.77% as compared with the corresponding period last year; production of lead concentrates was 9,247 tonnes, representing a decrease of 16.57% as compared with the corresponding period last year; production of zinc concentrates was 23,342 tonnes, representing an increase of 3.64% as compared with the corresponding period last year; production of antimony concentrates was 12,082 tonnes, representing a decrease of 17.71% as compared with the corresponding period last year.

During the reporting period of 2013, the Group spared no effort on pushing through all safety and environmental protection work starting from "key industries, key enterprises, key sectors and key components". As of the end of the reporting period, the Group has fully completed construction of its mine safety standards and "6+1" system, while major enterprises engaging in production activities have passed auditing and certification by third parties in HSE system, and 43 material environmental hazards were rectified, further solidifying the foundation for the Company to carry out its production in a safe and environmental friendly manner. The security situation of the Group has been stable and good in the whole year.

During the reporting period of 2013, the Group operated with flexibility and prudence according to situations. On the one hand, the Group timely adjusted its production structure on the basis of effective production in response to market changes and business characteristics. All mining enterprises fully released their production capacity by strengthening output of underground mining and steadily enhancing the economic indicators of mining technologies. All smelting enterprises ensured as much as possible full capacity production of profitable products with focus on strengthening integrated recovery, while cemented carbides production enterprises strived to achieve increase in production and efficiency of competitive products despite differential treatment under

the principle of assisting some industry sectors while suppressing others. On the other hand, focus was put on marketing management and marketing strategy, scientific co-ordination of operation systems and production systems, and strengthened market consolidation and expansion to evade operation risks. In 2013, overall production environment of the Group is significantly better than last year, with production and sales of certain major products striking record high. During the reporting period of 2013, the Group motivated active participation of all staff in systematic tapping of potential and did everything possible to control and cut costs. Starting from production process, effort was made on strengthening production management and on-going improvement of production costs; on strict control of non-production expenditure leading to decrease in expenses as compared with last year; on devising creative methods to manage and assess the proportion of three major expense items, and on stringent control of indicators growth, resulting in significant decrease in the proportion of three major expense items.

During the reporting period of 2013, the Group followed through its project construction plan and continued to strengthen industrial and resource integration in Hunan Province. Meanwhile, the Group actively sought funding from state policy support for energy conservation, mining and resource comprehensive utilization of its subsidiaries, so as to accelerate the construction of key projects.

During the reporting period of 2013, the Group increased investments in technology and actively promoted industrialization of scientific and technological achievements, with new progress in collaborative models of creative technologies. In 2013, the Group applied for 190 patents, of which 129 (including 50 for invention) were granted, undertook 13 world-class technology projects (or topics), and was granted 13 technology awards at provincial and ministerial level.

MARKET REVIEW

(The following information was quoted mainly from the website of Metal China www.metalchina.com. The commodity prices in China are inclusive of value added tax).

Tungsten Market

Domestically, the demand for tungsten was sluggish in 2013 and tungsten price was mainly driven by rising purchase and inventory volume. Price of tungsten lingered at low levels between January and March, surged all the way up in April due to anticipation of rising purchase and inventory volume, and hit the highest point of the year in late July, with the price of tungsten concentrates and Ammonium Tungstate (“APT”) reaching RMB159,000 per tonne and RMB226,000 per tonne respectively. In early August, the price of tungsten began to fall sharply. By early October, the price of tungsten concentrates fell to RMB123,000-127,000 per tonne and the price of APT fell to RMB188,000-192,000 per tonne. As the market price of tungsten approximated cost price, some companies began their purchase which led to slight increase in tungsten price. However, the price soon began to fall due to weak demand. At the end of the year, the prices of tungsten and APT were RMB117,000-118,000 per tonne and RMB177,000-182,000 per tonne respectively. The average price of tungsten concentrates for the year was RMB130,300 per tonne and the average price of APT was RMB191,100 per tonne, representing an increase of 10.8% and 4.79% respectively as compared with the corresponding period last year.

Internationally, demand for tungsten has never improved throughout the year. The APT market in Europe also showed a trend of rise followed by drop, with high prices recorded in the middle of the year and relatively lower prices recorded at the beginning and the end of the year. In 2013, the average price of APT in Europe was US\$368 per ton unit, representing a decrease of 1.84% as compared with the corresponding period last year. The highest price was US\$425 per ton unit while the lowest price was US\$280 per ton unit.

In 2014, the supply of tungsten will remain stable and the demand will improve. It is expected that domestic average price of tungsten concentrates will be RMB140,000 per tonne and the price of APT will be RMB210,000 per tonne.

Antimony Market

Domestically, the price of antimony in 2013 showed a downward trend with fluctuations. During the first half of the year, the price of antimony kept declining; during the second half of the year, the depressed antimony market was supported to a certain extent by anticipation of rising purchase and inventory volume coupled with the driving effect of rising purchase and inventory volume of antimony. However, due to lack of support from downstream consumption, the price of antimony resumed the downward trend after completion of increase in purchase and inventory volume in November. The annual average price of antimony in domestic market in 2013 was approximately RMB65,000 per tonne, representing a decrease of 12% as compared with the corresponding period last year.

Internationally, the trend of antimony price was basically in line with domestic market. Due to ample supply and persisting weak demand, the European market twice experienced rapid decline in the price of antimony. In 2013, the average price of antimony (Class II) in the international market was US\$10,210 per tonne, representing a decrease of 19.7% as compared with the corresponding period last year.

It is expected that the average price of antimony will be RMB63,000-65,000 per tonne in the domestic market, while the average price of antimony (Class II) will be US\$9,600-9,800 per tonne in the international market.

Lead Market

Internationally, lead price quoted by the London Metal Exchange (“LME”) experience a challenging year in 2013. Driven by restorative growth in foreign demand, the price showed an obvious upward trend as compared with 2012. In the first half of the year, the price of LME 3-month lead contract hit the highest point for the year at US\$ 2,499 per tonne at the beginning of the year, tumbled all the way afterwards, especially in mid to late April due to crash of international gold price, and hit the lowest point at US\$1,938 in early May. In the second half of the year, the price of LME 3-month lead future contract fluctuated within US\$2,000-2,200 per tonne, and closed at US\$2,219 per tonne at the end of the year. The average price of LME 3-month lead contract was US\$2,158 per tonne for the year, representing an increase of 5.0% as compared with the corresponding period last year.

Domestically, the trend of lead price quoted in the Shanghai Futures Exchange (“SHFE”) was basically in line with that in LME, despite a significantly lower range of fluctuation. In January, the dominant contract price of Shanghai lead hit the highest point at RMB15,625 per tonne, afterwards kept falling with fluctuation due to factors such as domestic weak fundamentals, and in early May fell to its lowest point at RMB13,480 per tonne since the launch of the SHFE lead future contract. Nevertheless, driven by the movement of external markets, the price strongly rebounded in early August to the level at the beginning of the year, fell with fluctuation afterwards and closed at RMB14,275 per tonne at year end. The annual average dominant contract price of Shanghai lead was RMB14,275 per tonne, representing a decrease of 8.0% as compared with the corresponding period last year, while the average price was RMB14,184 per tonne in the domestic spot market, representing a decrease of 7.2% as compared with the corresponding period last year.

Against a backdrop of oversupply in domestic market, it is difficult to have a big improvement in lead price despite limited space for moving downward due to cost factors. It is expected that the average price of LME 3-month lead future will be US\$ 2,250 per tonne, while the average dominant contract price of Shanghai lead will be RMB14,500 per tonne.

Zinc Market

Internationally, in the first half of 2013, the price of LME 3-month zinc future hit the highest point at US\$2,230 per tonne in mid-February, kept falling with fluctuation afterwards, and reached the lowest point of the year at US\$1,812 per tonne in mid-May. In the second half of the year, zinc price fluctuated mainly within the range of US\$1,810-US\$2,010. In late December, favored by investors due to concerns about zinc supply, zinc price kept rising for about half a month and broke through the previous range of fluctuation to reach the highest at US\$2,100 per tonne. The annual average price of LME 3-month zinc future was US\$1,939 per tonne, representing a decrease of 1.3% as compared with the corresponding period last year, and the LME spot average price was US\$1,909 per tonne, representing a decrease of 2% as compared with the corresponding period last year.

Domestically, the trend of zinc price was generally in line with international market. The average dominant contract price of Shanghai zinc showed a V-shaped upward trend as international market at the beginning of the year, hit the highest point at RMB16,255 per tonne in early February, and went all the way down afterwards. In mid-April, it fell to the lowest point at RMB14,060 per tonne for the year, fluctuated and consolidated within RMB14,150 and RMB15,300 per tonne afterwards, and once again drew closer to the price at the beginning of the year in December following the upward trend of international market. The annual average dominant contract price of Shanghai zinc was RMB14,896 per tonne, representing a decrease of 1.1% as compared with the corresponding period last year, while the average domestic spot price of 0# zinc was RMB14,938 per tonne, representing a decrease of 0.33% as compared with the corresponding period last year.

It is expected that in 2014 dominant contract price of Shanghai zinc will fluctuate within RMB14,500-15,500 per tonne, while LME 3-month zinc price will fluctuate within US\$1,880-2,300 per tonne.

BUSINESS PROSPECTS AND OUTLOOK

In 2014, general demand for non-ferrous metals is expected to be better than 2013. According to the report in World Economic Outlook released by The World Bank in January 2014, after five years of global financial crisis, developing countries and high income economies have finally bottomed out gradually and the global economy is expected to strengthen gradually. However, affected by factors such as shift in monetary policies of Federal Reserve and industry restructuring and excess capacities in China, the prices of most non-ferrous metals are expected to remain volatile at low level in 2014 in general. To actively respond to changes from external markets, the Group will firmly grasp the two keys, i.e., quality efficiency and transformation upgrade, and steadily pushed forward safety and environmental protection as well as stringent control of operations risk, with “structural adjustment, quality enhancement and excellent management” as the general principle of production, ensuring improved performance and enhanced quality while maintaining stability.

In 2014, the Group will continue to optimize its business structure, rationalize production and operation arrangements, striving to achieve a moderate scale for smooth operation of the enterprises and dynamic equilibrium in enhancement of quality and efficiency. The Group will coordinate marketing strategies, integrate sales channels and strengthen upstream and downstream connection, so as to enhance its market influence.

In 2014, the Group will strengthen its control measures, further focus on management of the proportion of three major expense items, continue to promote cost efficiency, and practically improve the operation efficiency and profitability of assets. With a focus on economic efficiency, the Group will guide the use of funds and strengthen supervision thereof, so as to further enhance its resource allocation capability.

In 2014, the Group will further implement internal industrial integration and consolidation, strengthen internal collaboration, further develop operation and management synergies, and strive to enhance the overall efficiency of the enterprises.

In 2014, the Group will further strengthen investment budget management, effect post investment project evaluation, and pay close attention to the optimization progress of construction projects in progress, with focus on the construction of a number of key projects including the technological improvement project for CNC blades production line of Zhuying, the technological improvement project for tungsten, molybdenum, bismuth polymetallic ores of Shizhuyuan and Chaishan, and the 4,500t /d mining, alteration and expansion project of Xin Tianling, so as to realize effective production of new investment projects as soon as possible, laying the foundation for product upgrade and structural adjustment of the Company.

In 2014, the Group will further improve the organization and management system for safety and environmental protection, fully implement a related personal responsibility system, further improve the emergency plan, emergency exercises etc., for safety and environmental protection, and strive to promote occupational health management, so as to ensure a sustainable and steadily improving environmentally friendly environment.

In 2014, the Group will vigorously push forward scientific and technological innovation while enhancing the efficiency from combining production with research. With clear major directions, efforts will be put on improving technical standards in areas such as exploration, exploitation and integrated recovery of resources as well as back-end product upgrades as soon as possible; on continuous strengthening of production with research to accelerate scientific and technological achievements while increasing technical support of technology to the industry; and on improving assessment and incentive mechanism as well as enhancing the effectiveness of production and research cooperation.

In 2014, the board of directors and senior management of the Company will continue to work diligently and make every effort to create value for shareholders. With the joint efforts of all our employees on the back of global economic recovery, I strongly believe that the Group will set to seize forthcoming development opportunities, strengthen core competitiveness and further improve its operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Profit before income tax amounted to RMB312 million for the year ended 31 December 2013, representing an increase of RMB619 million, or 201.63% from loss before income tax amounting to RMB307 million for the year ended 31 December 2012. The profit attributable to owners of the Company was RMB204 million, representing an increase of RMB197 million, or 2814.29% from RMB7 million for the year ended 31 December 2012.

The following is the comparison of the two years ended 31 December 2013 and 31 December 2012 (the following comparatives stated in the analysis were restated in respect of the consolidation of Zhongwu Gaoxin into the Group):

TURNOVER

Turnover increased to RMB31,098 million for the year ended 31 December 2013, from RMB25,583 million for the year ended 31 December 2012, representing an increase of RMB5,515 million, or 21.56%, primarily due to the slight decrease in turnover before sales tax and surcharge of RMB53 million or 0.92% for the nonferrous metals mine segment, the increase of RMB3,886 million or 31.89% for the nonferrous metals smelting segment, and the increase of RMB1,699 million or 21.88% for the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment.

Our gross profit increased by RMB192 million or 11.05% from RMB1,738 million for the year ended 31 December 2012 to RMB1,930 million for the year ended 31 December 2013. The gross profit margins were 6.79% and 6.21% for the years ended 31 December 2012 and 2013 respectively.

NONFERROUS METALS MINE SEGMENT

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

| | 2013 | | 2012 | |
|---------------------------------------|--------------------------|---|--------------------------|---|
| | Sales volume (tonnes) | Average selling price (RMB/tonne) | Sales volume (tonnes) | Average selling price (RMB/tonne) |
| Shizhuyuan | | | | |
| Tungsten concentrates | 4,808 | 115,130 | 4,948 | 98,805 |
| Oxidized molybdenum | — | — | 340 | 75,491 |
| Bismuth products | 809 | 86,868 | 1,025 | 111,491 |
| Huangshaping Branch | | | | |
| Zinc concentrates | 4,157 | 8,964 | 9,385 | 8,749 |
| Lead concentrates (containing silver) | 3,820 | 14,938 | 7,349 | 17,290 |
| Hsikwangshan | | | | |
| Antimony products | 35,767 | 50,707 | 33,079 | 58,355 |
| Zinc products | 17,835 | 12,244 | 23,556 | 13,293 |
| Xin Tianling | | | | |
| Tungsten concentrates | 1,691 | 120,186 | 1,810 | 101,715 |
| Hengyang Yuanjing | | | | |
| Tungsten concentrates | 1,089 | 116,048 | 503 | 101,365 |

Turnover before sales tax and surcharge of the nonferrous metals mine segment decreased by RMB53 million, or 0.92%, from RMB5,760 million for the year ended 31 December 2012 to RMB5,707 million for the year ended 31 December 2013. The turnover decreased primarily due to decrease in both sales volume and selling prices of the lead concentrate (containing silver) products in 2013.

Gross profit from nonferrous metals mine segment increased by RMB61 million or 9.24% from RMB660 million for the year ended 31 December 2012 to RMB721 million for the year ended 31 December 2013. Gross profit margin for the year ended 31 December 2013 increased by 1.17% to 12.63% from 11.46% for the year ended 31 December 2012, which was attributable to the increase in gross profit margin of tungsten concentrates.

NONFERROUS METALS SMELTING SEGMENT

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

| | 2013 | | 2012 | |
|-------------------------|--------------------------|---|--------------------------|---|
| | Sales volume (tonnes) | Average selling price (RMB/tonne) | Sales volume (tonnes) | Average selling price (RMB/tonne) |
| Zinc products | 557,769 | 13,019 | 505,616 | 13,322 |
| Lead products | 101,492 | 12,700 | 82,119 | 13,929 |
| Precious metal - indium | 122 | 3,461,070 | 47 | 3,042,652 |
| Precious metal - silver | 319 | 3,901,013 | 147 | 5,483,651 |

Turnover before sales tax and surcharge of the nonferrous metals smelting segment increased by RMB3,886 million, or 31.89% from RMB12,186 million for the year ended 31 December 2012 to RMB16,072 million for the year ended 31 December 2013. The increase in turnover was primarily due to the significant increase in the sales volumes of all types of products.

Gross profit from nonferrous metals smelting segment increased by RMB323 million or 1900% from gross loss of RMB17 million for the year ended 31 December 2012 to gross profit of RMB306 million for the year ended 31 December 2013. The gross profit margin increased by 2.04% from gross loss margin of 0.14% for the year ended 31 December 2012 to gross profit margin of 1.90% for the year ended 31 December 2013. The gross profit margin significantly increased as the production has been increasing steadily and created a historical new high record, the retail price difference has improved, saved tapping latent potentialities and increased the main technical and economical standards.

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

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

| | 2013 | | 2012 | |
|---------------------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| | Sales volume | Average selling price (RMB) | Sales volume | Average selling price (RMB) |
| Cemented carbides | 7,015 tonnes | 442,195/tonne | 6,615 tonnes | 519,220/tonne |
| Tungsten and its compounds | 8,830 tonnes | 244,318/tonne | 8,834 tonnes | 232,461/tonne |
| Molybdenum and its compounds | 834 tonnes | 270,684/tonne | 762 tonnes | 302,402/tonne |
| Tantalum, niobium and their compounds | 191 tonnes | 1,076,438/tonne | 205 tonnes | 1,125,557/tonne |
| Indexable insert tips | 4,345 thousand pieces | 59,626/ thousand piece | 3,466 thousand pieces | 67,576/ thousand piece |
| PCB drills | 180,762 thousand pieces | 2,734/ thousand piece | 148,132 thousand pieces | 2,926/ thousand piece |

Turnover before sales tax and surcharge of the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment increased by RMB1,699 million, or 21.87%, from RMB7,767 million for the year ended 31 December 2012 to RMB9,466 million for the year ended 31 December 2013. The increase of turnover was attributable to the increase in sales volume of tungsten and its compounds and sales volume of PCB drills.

Gross profit from the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment decreased by RMB190 million or 17.35% from RMB1,095 million for the year ended 31 December 2012 to RMB905 million for the year ended 31 December 2013. Gross profit margin for the year ended 31 December 2013 decreased by 4.55% to 9.56% from 14.11% for the year ended 31 December 2012. The decrease was primarily due to the decline rate in average selling price of cemented carbides products being higher than the decline rate of their costs.

OTHER INCOME

Other income increased by RMB299 million, or 59.95% from RMB498 million for the year ended 31 December 2012 to RMB797 million for the year ended 31 December 2013. The increase was primarily due to the increase in government grants recognised as other income by RMB206 million. The net gains on disposal of available-for-sales financial asset including the disposal of the shares in Western Mining Company Limited (“Western Mining”) increased by RMB85 million.

SELLING AND DISTRIBUTION COSTS

The selling and distribution costs increased by RMB26 million, or 6.31% from RMB412 million for the year ended 31 December 2012 to RMB438 million for the year ended 31 December 2013. The increase was due to the increase of handling and transportation fees compared with last year, caused by the change of payment terms for the transportation fees and increase of sales volume of some products.

ADMINISTRATIVE EXPENSES

The administrative expenses slightly decreased by RMB2 million, or 1.55% from RMB1,290 million for the year ended 31 December 2012 to RMB1,288 million for the year ended 31 December 2013. The decrease was due to the slightly decrease in staff costs of management and administration as well as decrease in bank charges, despite of the increase in research and development costs for the year.

OTHER EXPENSES, NET

Other expenses, net decreased by RMB55 million, or 87.08% from RMB63 million for the year ended 31 December 2012 to RMB8 million for the year ended 31 December 2013. The decrease was primarily due to the suspension of production of Beaver Brook Antimony Mine Inc., a subsidiary of the Group, such that no price participation payments were paid to its former shareholders for the year (2012: RMB36 million), and no impairment loss was recognized for other assets (2012: RMB7 million).

PROVISION FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPEMENT

Provision for impairment of property, plant and equipment decreased by RMB50 million, or 96.15% to RMB2 million for the year ended 31 December 2013 from RMB52 million for the year ended 31 December 2012. Provision for impairment for the current year was made primarily for the tailing pond of Hunan Nonferrous Xintianling Tungsten Company Limited, a subsidiary of the Group.

PROVISION FOR/REVERSAL OF PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

Provision for impairment of trade and other receivables of RMB7 million was made for the year, albeit reversal of RMB19 million was made for last year. The main reason for the reversal last year was due to the recovery of part of the investment receivable from Compass Resources Company in Australia for which provision had been fully made in prior periods. And provision for the current year was mainly provision charged for estimated possible bad debts in trade and other receivables.

FINANCE COSTS

The finance costs decreased by RMB87 million, or 10.98% from RMB792 million for the year ended 31 December 2012 to RMB705 million for the year ended 31 December 2013. The decrease was primarily due to the decrease in the loan interest rate of current interest-bearing bank and other borrowings.

INCOME TAX EXPENSE

The income tax expense decreased by RMB59 million, or 46.08% from RMB129 million for the year ended 31 December 2012 to RMB70 million for the year ended 31 December 2013. The decrease was primarily due to the recognition of deferred tax assets in respect of tax losses of a subsidiary of the Company, Zhuying.

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The net profit attributable to the owners of the Company increased by RMB197 million, or 2814.29% from RMB7 million for the year ended 31 December 2012 to the profit of RMB204 million for the year ended 31 December 2013. The increase in the profits attributable to owners of the Company was primarily due to the significant turnaround from loss to profit of Zhuye, a subsidiary of the Company in the year of 2013, because of the significant turnaround from gross loss to gross profit, significant gain on disposal of the shares of Western Mining and instant value-added tax refund of 50% plus environmental protection grant for its comprehensive utilization of resources on its products.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests increased by RMB481 million or 108.58% from loss of RMB443 million for the year ended 31 December 2012 to profit of RMB38 million for the year ended 31 December 2013. The increase was mainly due to the significant turnaround from loss to profit of Zhuzhou Smelter Group Holding Co., Ltd. and its subsidiaries during the year.

LIQUIDITY, SOURCE OF FUNDS AND CAPITAL STRUCTURE

For the year ended 31 December 2013, 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. For the year ended 31 December 2013, the cash and cash equivalents of the Group amounted to RMB1,782 million, which were denominated in currencies as follows:

| Currencies | RMB'000 | Percentage |
|-------------------------------|------------------|----------------|
| Renminbi ("RMB") | 1,562,211 | 87.66% |
| Australian dollars | 124,793 | 7.00% |
| United States dollars ("USD") | 34,350 | 1.92% |
| European Euros ("EUR") | 50,781 | 2.85% |
| Hong Kong dollars ("HKD") | 4,576 | 0.25% |
| Canadian dollars ("CAD") | 5,210 | 0.29% |
| Others | 53 | 0.03% |
| | <u>1,781,974</u> | <u>100.00%</u> |

For the year ended 31 December 2013, total amount of interest-bearing bank and other borrowings was RMB14,124 million which was denominated in currencies as follows:

| Currencies | RMB'000 | Percentage |
|------------|-------------------|----------------|
| RMB | 13,122,027 | 92.91% |
| USD | 890,842 | 6.31% |
| HKD | 69,008 | 0.49% |
| EUR | 36,628 | 0.26% |
| CAD | 1,489 | 0.01% |
| Others | 4,010 | 0.02% |
| | <u>14,124,004</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 | 10,107,094 | 71.56% |
| In the second year | 1,685,720 | 11.94% |
| In the third to fifth year both inclusive | 2,301,027 | 16.29% |
| Beyond five years | 30,163 | 0.21% |
| | <u>14,124,004</u> | <u>100.00%</u> |
| | | |
| Interest rate basis: | RMB'000 | Percentage |
| Floating rate | 3,410,063 | 24.14% |
| Fixed rate | 10,713,941 | 75.86% |
| | <u>14,124,004</u> | <u>100.00%</u> |
| | | |
| Nature of debts: | RMB'000 | Percentage |
| Unsecured | 12,946,562 | 91.66% |
| Secured | 1,177,442 | 8.34% |
| | <u>14,124,004</u> | <u>100.00%</u> |

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the proportions of purchase and sales from our major suppliers and major customers to our total purchase and sales were as follows:

Purchases

The total purchase from our largest supplier was approximately 2.51% of our total purchase value.

The total purchase from our five largest suppliers was approximately 9.62% of our total purchase value.

Sales

The total sales to our largest customer was approximately 4.13% of our total sales value.

The total sales to our five largest customers was approximately 17.28% of our total sales value.

During the year, none of the directors or supervisors or their respective associate, 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 were secured by certain of the Group's assets:

| | 2013 | 2012 |
|-------------------------------|--------------|----------|
| | RMB'000 | RMB'000 |
| Property, plant and equipment | 234,710 | 459,319 |
| Land lease prepayments | 205,233 | 214,839 |
| Trade receivables | 549,226 | 791,703 |
| Pledged deposits | <u>2,400</u> | <u>—</u> |

Part of the Group's deposits for derivatives were secured by certain of the Group's inventories, with a carrying amount of RMB1,780,000 (2012: RMB Nil).

Cash and time deposits amounting to RMB3,000,000 (2012: RMB68,410,000) were pledged to banks for the issuance of bills payable.

Certain of the Group's bills receivable amounting to RMB Nil (2012: RMB9,500,000) were pledged to banks for issuance of bills payable.

ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

During the year 2013, the Group acquired an additional interest in a subsidiary. The details are as follows:

| Name of a subsidiary | Date of acquisition | Additional equity interest acquired |
|---|---------------------|-------------------------------------|
| Held by a subsidiary, Zhuying – Shenzhen Jinzhou | 20 June 2013 | 2.92% |

DISPOSAL OF A SUBSIDIARY

On 12 December 2013, Shizhuyuan, a 97.35% owned subsidiary of the Company, disposed 32.48% equity interests in Changsha Jintang Bismuth Company Limited to an independent third party at a cash consideration of approximately RMB583,000, and has ceased to be a subsidiary of the Group.

NEWLY ESTABLISHED SUBSIDIARIES

For the year ended 31 December 2013, the Group established two direct subsidiaries, namely Hunan Nonferrous Tai Li Mining Company Limited ("Tai Li") and Hunan Nonferrous Jinsha Fluorite Company Limited ("Jinsha Fluorite"), in which the Group held 51% equity interests in both subsidiaries.

Tai Li was registered with a paid-up share capital of RMB10 million and its principal activity was trading of mineral products; Jinsha Fluorite was registered with a paid-up share capital of RMB15 million, and its principal activity is engaged in recovery of fluorite in the polymetallic tailings of the Huangshaping Mining Branch.

GROUP REORGANISATION

On 23 June 2012, the Company entered into a sale and purchase agreement with Zhongwu Gaoxin and, pursuant to the supplemental agreement entered into on 8 September 2012, the Company conditionally agreed to dispose of its 100% equity interests in Zhuying and 80% equity interests in Zigong to Zhongwu Gaoxin in consideration of the issue and allotment of approximately 304.6 million shares of Zhongwu Gaoxin to the Company. The transaction was conditionally agreed by the China Securities Regulatory Commission on 14 August 2013, and the equity transfer of Zhuying and Zigong was completed on 22 September and 24 September 2013 respectively, the share register of Zhongwu Gaoxin was accepted and confirmed by China Securities Depository and Clearing Corporation Limited on 25 October 2013. Each of Zhuying and Zigong became indirect subsidiaries of the Group, through the Company's shareholding in Zhongwu Gaoxin. The Group's equity interests in Zhuying and Zigong were diluted by approximately 27.33% and 21.86% from 100% and 80% to 72.67% and 58.14% respectively, and the Group's equity interests in Zhongwu Gaoxin increased by approximately 37.39% from 35.28% to 72.67%.

On 6 December 2013, the directors resolved to approve Zhongwu Gaoxin to issue additional 101.5 million shares by way of private placement to not more than 10 target subscribers to raise funds up to an amount of RMB915.7 million. Upon the completion of the share issue, the Group's equity interests in Zhongwu Gaoxin, Zhuying and Zigong were further diluted by approximately 11.73%, 11.73% and 9.39% from 72.67%, 72.67% and 58.14% to 60.94%, 60.94% and 48.75% respectively.

Except the above, there was no other material acquisition or disposal of subsidiaries and associates during the year 2013.

DEBT TO TOTAL ASSETS RATIO

As at 31 December 2013, the debt to total assets ratio of the Group decreased from 76.96% in 2012 to 74.89% in 2013. 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 decreased primarily due to the total asset increased caused by Zhongwu Gaoxin raising fund from non-controlling interests.

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 purchase 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 loans and other borrowings (amounting to RMB14,124 million as at 31 December 2013). 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.

DONATIONS

Donations maintained at RMB2 million for the year ended 31 December 2012 and 2013. The donations were mainly given to the local villages and the projects development by local government.

CONTINGENT LIABILITIES

As at 31 December 2013 and 2012, the Group had 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 year ended 31 December 2013 and 2012:

| | 2013 | | 2012 | |
|---|------------------|----------------|------------------|----------------|
| | RMB'000 | Percentage | RMB'000 | Percentage |
| Nonferrous metals mine | 963,748 | 49.14% | 800,218 | 48.68% |
| Nonferrous metals smelting | 446,256 | 22.75% | 267,150 | 16.25% |
| Cemented, carbides, tungsten, molybdenum, tantalum, niobium and their compounds | 550,452 | 28.06% | 571,993 | 34.79% |
| The Company and others | 974 | 0.05% | 4,548 | 0.28% |
| | <u>1,961,430</u> | <u>100.00%</u> | <u>1,643,909</u> | <u>100.00%</u> |

EMPLOYEES

As at 31 December 2013, the Group had a total of about 27,054 full-time employees, classified by functions and departments as follows:

| Department | Employees | Percentage |
|-------------------------------------|---------------|----------------|
| Management and administration | 3,245 | 11.99% |
| Engineering and technical personnel | 3,376 | 12.48% |
| Production personnel | 16,495 | 60.97% |
| Repair and maintenance | 1,471 | 5.44% |
| Inspection | 1,689 | 6.24% |
| Sales | 778 | 2.88% |
| Total | <u>27,054</u> | <u>100.00%</u> |

The employees' remuneration package of the Group includes salary, bonus and allowance. The Group has participated in the social insurance contribution plans implemented by the local governments in the PRC. Pursuant to the relevant national and local labour and social welfare laws and regulations, the Group shall pay for the employees the monthly social insurance premium covering the pension insurance, the medical insurance, injury insurance, the unemployment insurance and the housing reserve fund. According to the current applicable local regulations, the contribution of the Group to the employees' pension insurance, medical insurance, injury insurance, unemployment insurance, maternity insurance and housing reserve fund shall be equivalent to 20%, 8%, 3%, 2%, 0.7% and 12% respectively of the total basic monthly salary of each employee.

The Group provides training for employees of different functions in accordance with annual plans. During 2013, the Group completed a total of 375 training projects with 31,086 attendance and cumulative 23,666 training hours. Skill-development trainings were provided for front-line operation personnel, modern management philosophy and training for management methods were provided to management, trainings on all safety education, legal education, education and training on construction of enterprise culture and teamwork are provided to all employees.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, as recorded in the register required to be kept under section 336 of the SFO, the following persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company:

| Name | Class of shares | Nature of interests | Number of shares | Approximate percentage of relevant class to share capital | Approximate percentage of total number to the shares of the Company | Long/short position |
|---|-----------------|------------------------------------|------------------|---|---|---------------------|
| China Minmetals (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 Holdings 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 |
| HNG (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 HNG) | H Share | Beneficial owner | 159,872,000 | 9.79% | 4.36% | Long position |

Notes:

1. China Minmetals 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 HNG 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 Holdings Company Limited, and is therefore deemed to be interested in the domestic shares of the Company held by HNG and the H shares of the Company held by Hunan Nonferrous Metals Jinsheng Development Co., Ltd. under the SFO.
3. Minmetals Nonferrous Metals Holdings Company Limited is the controlling shareholder of HNG, and is therefore deemed to be interested in the domestic shares of the Company held by HNG and the H shares of the Company held by Hunan Nonferrous Metals Jinsheng Development Co., Ltd. under the SFO.
4. HNG 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 HNG).

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTEREST

Interests of Directors, Supervisors and Chief Executive in Contracts

During the reporting period, none of the directors nor supervisors had a material interest, either directly or indirectly, in any contract which was subsisting and significant to the business of the Group at the end of the year and at any time during the year.

Model Code for Securities Transactions by Directors, Supervisors and Chief Executive

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors', supervisors' and chief executive's securities transactions. Based on specific enquiries with all the directors, supervisors or chief executive of the Company, the directors, supervisors or chief executive confirmed that they had complied with the required standards as set out in the Model Code for the whole financial year ended 31 December 2013.

Rights of Directors, Supervisors and Chief Executive's to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, supervisors, 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, supervisors or chief executive to acquire such rights in any other body corporate.

Stock Appreciation Rights Plan ("SARs")

An extraordinary shareholders' meetings was held on 25 September 2006, in which (among the others) the preliminary stock appreciation recommendations pursuant to the SARs (details of which please refer to the section "Stock Plan" in the Prospectus dated 21 March 2006) was approved. Such plan aims to attract, retain and encourage senior executives and key officers with valuable contribution to the Group and to the enhancement of profitability and value of the Group.

The grantees and the number of stock granted to them are set out as follows:

| Name | Number of 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 | Executive director and general manager |
| 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 | Non-executive director |
| 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 manager of a subsidiary |
| Fu Shaowu | 512,820 | Former senior manager of a subsidiary (Resigned on 19 July 2012) |
| Yang Lingyi | 512,820 | Former senior manager 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 manager of subsidiary (Resigned in May 2010) |
| Total: | 10,000,000 | |

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 and the average closing price of the five trading days following the 30th trading day after the Company being listed, was HK\$2.8 per share. The stock appreciation rights would expiry after eight years from the date of issued. No SARs were exercised by the grantees during the year ended 31 December 2013.

CORPORATE GOVERNANCE

The Company strictly complies with the relevant regulations of China Securities Regulatory Commission the Stock Exchange of Hong Kong as well as other competent regulatory authorities. The Articles of Association of the Company, the rules for the meetings of the Board and the Supervisory Committee, the terms of reference for the audit committee, the remuneration and assessment committee, the nomination committee and the strategy committee, information disclosure system, investor relationship management and the Model Code for Securities Transactions by directors and specific employees constitute the bases of the Company's corporate governance, in order to maintain a high standard of corporate governance. The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules during the financial year ended 31 December 2013. The Company will further improve its corporate governance and enhance its transparency to shareholders.

BOARD OF DIRECTORS

Our board of directors is responsible for the overall leadership and governance of the Company, and is collectively responsible for directing and supervising the affairs of the Company. Our board of directors consists of 13 directors, four of whom are executive directors including Mr. Li Fuli, Mr. Li Li, Ms. Deng Yingjie (appointed in December 2013 to replace Mr. Liao Luhai) and Mr. Guo Wenzhong; another four of whom are non-executive directors including Mr. Cao Xiuyun, Mr. Huang Guoping, Mr. Chen Zhixin and Yang Guang (appointed on 30 January 2013 to replace Mr. Lu Yuanjing); the remaining five of whom are independent non-executive directors including Mr. Kang Yi, Mr. Gu Desheng, Ms. Chen Xiaohong, Mr. Wan Ten Lap, and Mr. Choi Man Chau, Michael. Mr. Li Fuli is the chairman. Our directors were elected at Shareholders' Meetings for a term of three years. For corporate governance, the board of directors has determined the policy for the corporate governance of the Group, and the terms of reference for the remuneration and assessment committee, the nomination committee, the audit committee and the strategy committee under the Board. During the year under review, the board of directors has organized training for the directors and senior management, and has reviewed the Company's compliance with the Corporate Governance Code as set out in Appendix 14 and the corporate governance report. During the year under review, all directors should participate in continuous professional development to develop and refresh their knowledge and skills so as to ensure that their contribution to the board remains informed and relevant. The Company has received records of the training of all directors and the code provision A.6.5 of Listing Rules is fully complied.

Each director of the Board shall act in the interests of the shareholders, and use his best endeavours to perform the duties and obligations as a director in accordance with all the applicable laws and regulations. Duties of the Board include: deciding on the Company's business plans and investment proposals, preparing the Company's profit distribution and loss recovery proposals, formulating the Company's capital allocation proposals, and implementing resolutions approved at Shareholders' Meetings, etc.

AUDIT COMMITTEE

An audit committee has been established by the Board. The audit committee's duties are mainly to give suggestions for nomination and replacement of external auditors, monitor the internal audit system of the Company and its execution, communication with external and internal auditors, review financial reports and its disclosure and review internal control system. The committee consists of two independent non-executive directors including Mr. Choi Man Chau, Michael and Mr. Wan Ten Lap, and one non-executive director Mr. Chen Zhixin. Mr. Choi Man Chau, Michael is the chairman of the committee. The audit committee meetings shall be held at least twice a year. Two meetings were held in the reporting period with all committee members attending the meetings to review the annual report and other related issues under Listing Rules for the year 2012 and the interim report for 2013. One meeting was held on 25 March 2014 with all committee member attending the meeting to review the Company's annual report and other related issues under listing rules for the year ended 31 December 2013.

Closure of Share Register for Annual General Meeting

The Annual General Meeting of the Company will be held at 10:00 a.m. on 30 May 2014 at No. 290 Labor Road West, Changsha City, Hunan, the PRC. The register of shareholders of the Company will be closed from 30 April 2014 to 30 May 2014 (both days inclusive). In order to be eligible to attend the AGM of the Company as directors, instruments of transfer accompanied by relevant share certificates must be lodged with the Company's share registrar no later than 4:30 p.m. on 29 April 2014.

By order of the Board

Li Fuli

Chairman

Changsha, the PRC

26 March 2014

As at the date of this report, the board of directors of the Company comprises Mr. Li Fuli, Mr. Li Li, Ms. Deng Yingjie, and Mr. Guo Wenzhong as executive directors; Mr. Cao Xiuyun, Mr. Huang Guoping, Mr. Chen Zhixin, and Mr. Yang Guang as non-executive directors; and Mr. Kang Yi, Mr. Gu Desheng, Ms. Chen Xiaohong, Mr. Wan Ten Lap and Mr. Choi Man Chau, Michael as independent non-executive directors.

* *For identification purpose only*