



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

(Incorporated under the laws of the Cayman Islands with limited liability)
Stock Code : 01378



INTERIM REPORT **2014**



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Corporate Information

EXECUTIVE DIRECTORS

Zhang Shiping (*Chairman*)
Zheng Shuliang (*Vice Chairman*)
Zhang Bo (*Chief Executive Officer*)
Qi Xingli (*Chief Financial Officer*)

NON-EXECUTIVE DIRECTORS

Yang Congsen
Zhang Jinglei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xing Jian
Chen Yinghai
Han Benwen

COMPANY SECRETARY

Zhang Yuexia

AUDIT COMMITTEE

Han Benwen (*Chairman*)
Xing Jian
Chen Yinghai

NOMINATION COMMITTEE

Xing Jian (*Chairman*)
Zhang Shiping
Han Benwen

REMUNERATION COMMITTEE

Han Benwen (*Chairman*)
Zhang Shiping
Xing Jian

AUTHORISED REPRESENTATIVES

Zhang Bo
Zhang Yuexia

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Corporate Information

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STOCK CODE

1378

LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

LISTING DATE

24 March 2011

NUMBER OF ISSUED SHARES AS AT 30 JUNE 2014

5,885,000,000

INVESTOR RELATIONS AND MEDIA RELATIONS CONSULTANT

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FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Interim Results Announcement Date
15 August 2014

COMPANY WEBSITE

www.hongqiaochina.com

Financial Highlights

(Unaudited financial data prepared in accordance with the IAS)

	For the six months ended 30 June		
	(RMB'000)		
	2014	2013	Change
Revenue	17,368,107	13,501,821	+28.6%
Gross profit	3,810,450	3,973,559	-4.1%
Gross profit margin (%)	21.9	29.4	-7.5P.P.
Net profit margin (%)	11.7	20.8	-9.1P.P.
Net profit attributable to owners of the Company	2,037,102	2,810,012	-27.5%
Basic earnings per share (RMB)	0.35	0.48	-27.1%

	As at 30 June		
	(RMB'000)		
	2014	2013	Change
Cash and cash equivalents	10,390,834	11,582,063	-10.3%
Total capital (total equity + total debt)	61,358,022	52,313,927	+17.3%
EBITDA/Interest coverage ratio	6.8	7.6	-0.8 times
Debt/EBITDA (times)	3.3	2.7	+0.6 times
Debt/Total capital (%)	54.7	54.3	+0.4P.P.
Accounts receivable turnover (days)	4	2	+2 days
Accounts payable turnover (days)	35	28	+7 days
Inventory turnover (days)	131	92	+39 days

Chairman's Statement

To all shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Hongqiao Group Limited ("China Hongqiao" or the "Company"), I am pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 (the "Period" or "Period under Review").

ACCUMULATING CAPABILITY AND CAPITALIZING ON OPPORTUNITIES WITH STABLE GROWTH

At the beginning of 2014, although the global economic condition showed an improvement, the economic recovery only brought limited benefit to the aluminum market, which was still facing with difficulties of surplus production and decreasing aluminum price.

The aluminum price remained weak at the beginning of 2014, which had kept dropping since January 2014 and, at the end of March 2014, reached the bottom price for the last four years. However, since the second quarter, aluminum price has gradually recovered and turned into a growing trend. In addition, the Republic of Indonesia ("Indonesia") implemented a complete prohibition of exporting 65 kinds of raw ore materials, including bauxite, with effect from 12 January 2014, while Chinese government also implemented the policy of tiered rates for electricity consumption by electrolytic aluminum enterprises in China with effect from 1 January 2014. These two policies have put the aluminum product manufacturers in China under the pressure of further increasing raw material and electricity costs.

Despite the overall business downturn of aluminum market, the Group stayed on the path of stable growth. During the Period under Review, the Group, by leveraging on its outstanding cost advantage and its long-term development strategy, maintained a stable growth in production and operation. In particular, it achieved a breakthrough in securing overseas raw material supply. In addition to speeding up the construction of the alumina project owned by the Group's Indonesia joint venture company, the Group also actively cooperated with numerous overseas bauxite production bases. The Group has successfully executed a memorandum of understanding with a target company, which is established under Bermuda laws, together with its existing shareholders and Winning Logistics (Africa) Company Limited, in relation to the acquisition of a bauxite mine with reserve of 2.2 billion tons in the Republic of Guinea, Africa. Besides, the Group expanded the procurement channels of bauxite to the Republic of India and Commonwealth of Australia to secure a sufficient supply of raw material in long run and minimize the exposure to the risks caused by the fluctuation in supply.

As for the extension into downstream of industry chain, it is expected that the construction of the aluminum fabrication processing production line with a designed annual production capacity of approximately 760,000 tons will be completed and commence operation within 2014. The Group's business scale will continue to grow by leveraging on the unique industry cluster development model and the industrial models of "Integration of Aluminum, Electricity and Grid" and "Integration of Upstream and Downstream Business".

Chairman's Statement

BUSINESS PERFORMANCE

During the Period under Review, the Group continued to expand its production scale and maintained a leading position. As of 30 June 2014, the Group's total designed annual production capacity of aluminum products was approximately 3,136,000 tons (30 June 2013: approximately 2,456,000 tons), representing an increase of approximately 27.7% as compared to the corresponding period of 2013, ranking as the second largest aluminum product manufacturer in China (source of ranking: Antaike).

Besides, the Group has achieved a great progress in the development of industrial models of "Integration of Aluminum, Electricity and Grid" and "Integration of Upstream and Downstream Business". On one hand, as of 30 June 2014, the Group had power plants with the aggregate installed capacity of 4,380MW, which increased the ratio of self-supplied electricity to approximately 70.7%. On the other hand, with the completion of the 1,000,000 tons coal fly ash alumina production line, the Group's annual production capacity of alumina reached 4,000,000 tons as of 30 June 2014. The Group's raw material self-supplied ratio for aluminum products will be further increased, reflecting that the Group has further solidified its raw material supply.

During the Period under Review, the Group's revenue amounted to approximately RMB17,368,107,000, representing a year-on-year increase of approximately 28.6%. The gross profit amounted to approximately RMB3,810,450,000, representing a year-on-year decrease of approximately 4.1%. This was primarily due to the fact that the average unit sales price of aluminum products dropped as compared to the corresponding period of the previous year, even though the Group recorded an increase in production and sales volume of aluminum products during the Period. The net profit attributable to owners of the Company amounted to approximately RMB2,037,102,000, representing a year-on-year decrease of approximately 27.5%. Basic earnings per share were approximately RMB0.35 (corresponding period in 2013: approximately RMB0.48). The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014.

During the Period, the Group successfully issued 7.625% p.a. senior notes due 2017 in the aggregate principal amount of US\$400,000,000. The proceeds of such issue was used for refinancing certain existing indebtedness of the Company and for general corporate purposes, which further optimized the Group's debt structure. The Board believes that our active involvement in capital market would facilitate the Group's long-term and healthy development. After the Group being included in the Hang Seng Composite Index and several other indexes last year, the Group was officially included in Hang Seng High Dividend Yield Index effective from 9 June 2014, which indicated that the Group continues to be well-recognised by the capital market.

Chairman's Statement

ALUMINUM PRICE IS RECOVERING WITH MORE AND MORE POSITIVE SIGNALS EMERGED IN ALUMINUM MARKET

After the aluminum price bottomed out at the end of the first quarter of 2014, with gradual recovery, the aluminum price has showed an uprising trend, which was a catalyst to turn such depressing aluminum market back to a rally. Although the recovery of Chinese aluminum market lags behind, more and more positive signals have emerged.

According to Antaike, during the first half of 2014, the total production volume of primary aluminum was approximately 13,360,000 tons in China, representing a growth of approximately 11.4% as compared to the corresponding period of the previous year. Although the production volume of primary aluminum remained growing, the growth pace was stable without showing further excessive expansion. In general, even though the aluminum market was still troubled by surplus production during the first half of 2014, Chinese government has accelerated the speed in phasing out backward production capacity and situation of surplus production was preliminary relieved accordingly. According to Antaike, during the first half of 2014, the production volume of domestic aluminum smelters in China was scaled down for over 2,000,000 tons. Meanwhile, the Ministry of Industry and Information Technology of the People's Republic of China announced that backward production capacity of electrolytic aluminum of 480,000 tons shall be closed down in 2014 which are now in progress.

In addition, Chinese government effectively implemented macro-economic control policies and progressively introduced local environmental-friendly and energy-saving standards, coupled with the pressure of rising expenses in raw material, which have accelerated the consolidation of aluminum industry in China and benefited the on-going development of superior enterprises.

As for macro-economic control, Chinese government has tightened the liquidity management of banking system to strictly control the growth of aggregate monetary credit and social financing with an aim to avoid non-standardized credit assets from flowing into the industries with surplus production. As the aluminum industry in China was still facing the problem of excess supply in general, the obtaining of bank loans by enterprises with high operation cost and backward production capacity has been closely regulated and monitored by the government. On 1 March 2014, the government of Shandong Province implemented new standards for the emission of gas and waste, which has been the strictest environmental-friendly and energy-saving standards ever in Shandong Province and accelerated the facility upgrade process as well as the phase-out of backward production capacity of domestic electrolytic aluminum enterprises. Such policy has demonstrated the local government's strong determination to consolidate the industry.

While the backward production capacity was gradually phased out, the demand on aluminum in downstream consumption remained strong. Following the promulgation of a series of "semi-stimulant" by Chinese government and the gradual implementation of national industry policies in China, the consumption demand on aluminum products in China expects to grow rapidly in the future driven by the express railway construction in central and western China, construction of infrastructure and indemnificatory housing and the development of machinery manufacturing and automobile manufacturing industry.

Chairman's Statement

Under the dual impact of policy control and market behavior, the price of aluminum product in China has gained a firm support for stable increase. The Group will closely monitor the market development and policy direction to grasp the opportunity to further expand its market share.

SEIZE THE OPPORTUNITY FOR FUTURE DEVELOPMENT

After a several-year market downturn, the global aluminum market is likely to have a strong recovery with the continuous rallying aluminum price. Although Chinese aluminum market still faces with long-term challenges, it keeps changing to a direction with healthy and sustainable development. The Group believes that there will be more and more development opportunities for the aluminum manufacturers in China brought by the improvement of aluminum market and the gradual standardization of the industry. The Group is still prudently optimistic about the future development of the aluminum industry.

Looking forward, the Group will adhere to its long-term development plan and continue to enhance the industrial models of "Integration of Aluminum, Electricity and Grid" and "Integration of Upstream and Downstream Business" in the mean time of increasing production capacity of aluminum products. Besides, we will strive for breakthrough and progress in raw material supply, technological upgrade and energy-saving to secure our leading position in Chinese aluminum industry.

As a visionary and quality enterprise, the Group expects to take advantage of the recovering market condition to grasp such important development opportunities and actively explore the market to realize a stable advancement in production and operation so as to bring better fruitful rewards and returns to the shareholders.

APPRECIATION

The stable development of the Group's business could not be achieved without the excellent and efficient management of the Group's management, the tireless efforts and dedication of all employees and the trust and support from all of the shareholders, investors and business partners. On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of them.

Zhang Shiping

Chairman

15 August 2014

Management Discussion and Analysis

INDUSTRY REVIEW

During the first half of 2014, with the stable recovery of developed economies, the unbalanced situation between market demand and supply of primary aluminum has shown a preliminary improvement and the domestic and international aluminum price has rebounded from downturn. At the end of June 2014, the three-month aluminum futures price quoted on the London Metal Exchange reached approximately US\$1,891 per ton, representing a rebound from the bottom in the first half of the year by approximately 13.2%. The three-month aluminum futures price quoted on the Shanghai Futures Exchange was approximately RMB13,500 per ton (value-added tax inclusive), representing a rebound from the bottom in the first half of the year by approximately 5.9%

During the first half of the year, the excess supply in domestic aluminum market was preliminary relieved. On one hand, the on-going consolidation of Chinese aluminum industry, the implementation of stricter environmental protection standards and the policy of tiered electricity rates made the backward production capacity to phase out, which improved the overall operating environment of the industry. Also, the uprising trend of aluminum price in recent months significantly boosted the profitability of the aluminum manufacturers in China. In addition, the construction of express railway, indemnificatory housing and infrastructure by Chinese government, together with the rapid development of downstream markets, such as high technology industry and automobile manufacturing industry ensured the on-going and strong growth of the demand on aluminum product in consumption market.

According to Antaike, the global production volume of primary aluminum in the first half of 2014 was approximately 26,060,000 tons, representing an increase of approximately 5.2% as compared with the corresponding period of 2013. The global consumption of primary aluminum in the first half of 2014 amounted to approximately 26,500,000 tons, representing an increase of approximately 8.3% as compared with the corresponding period of the previous year. As compared to the global market, the growth in supply and demand of the aluminum market in China was higher than that of the overall level of the global market. The production volume of primary aluminum in China in the first half of 2014 was approximately 13,360,000 tons, representing an increase of approximately 11.4% as compared with the corresponding period of 2013. The consumption of primary aluminum in China amounted to approximately 13,130,000 tons, representing an increase of approximately 13.2% as compared with the corresponding period of the previous year.

Management Discussion and Analysis

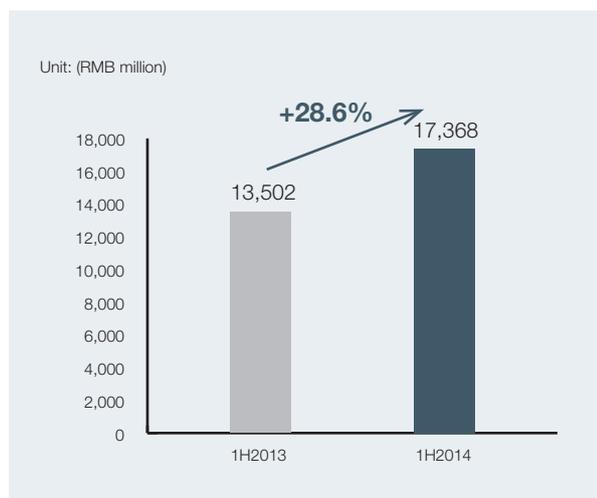
BUSINESS REVIEW

During the Period, the Group followed its established business plan to further expand production capacity of aluminum products and extend production chain, thereby enhancing its edge in the industry.

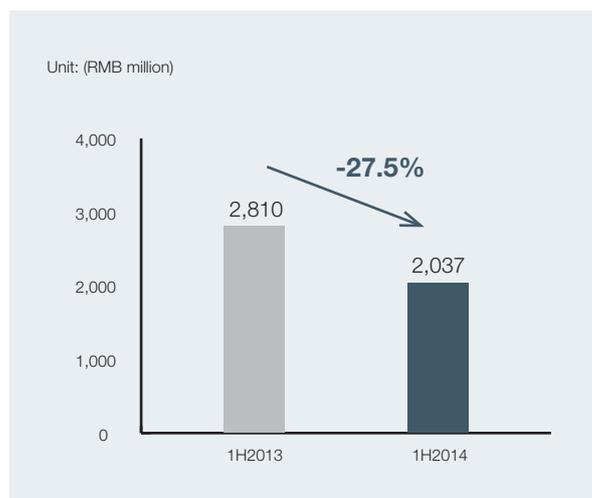
As of 30 June 2014, the Group's aggregate designed annual production capacity of aluminum products reached approximately 3,136,000 tons, leaping to the second largest aluminum product manufacturer in China (source of ranking: Antaika). During the Period, given the expanding production capacity of aluminum products and the increasing demand from downstream markets, the Group's total output of aluminum products amounted to approximately 1,539,000 tons, representing a year-on-year increase of approximately 43.1%. Production volume of aluminum fabrication reached approximately 70,000 tons.

The Group's unaudited revenue and net profit attributable to owners of the Company for the six months ended 30 June 2014, with comparison figures for the six months ended 30 June 2013, are as follows:

Unaudited revenue



Unaudited net profit attributable to owners of the Company



For the six months ended 30 June 2014, the Group recorded revenue of approximately RMB17,368,107,000, representing a year-on-year increase of approximately 28.6%, which was mainly due to the increases in the Group's production and sales volume of aluminum products compared with the corresponding period of the previous year, as a result of the further increase in the Group's production capacity of aluminum products. During the Period, the aggregate sales volume of the Group's aluminum products and aluminum fabrication was approximately 1,547,278 tons, representing an increase of approximately 42.6% when compared to approximately 1,084,759 tons in the corresponding period of the previous year. The average sale price of the Group's aluminum products decreased by approximately 9.5% from approximately RMB12,354 per ton (excluding value-added tax) in the first half of 2013 to approximately RMB11,184 per ton (excluding value-added tax) in the first half of 2014, as a result of the low price of aluminum products in China during the Period.

Management Discussion and Analysis

For the six months ended 30 June 2014, the net profit attributable to owners of the Company amounted to approximately RMB2,037,102,000, representing a year-on-year decrease of approximately 27.5%, mainly due to the decrease in the average unit sale price of aluminum products during the Period as compared with the corresponding period of the previous year, and the decrease in profits resulted from currency exchange losses.

The tables below are a comparison of the breakdown of revenue by product for the six months ended 30 June 2014 and 2013, respectively:

Products	Unaudited			
	For the six months ended 30 June			
	2014		2013	
Revenue RMB'000	Proportion of sales revenue to total revenue %	Revenue RMB'000	Proportion of sales revenue to total revenue %	
Molten aluminum alloy	14,283,778	82.2	10,099,885	74.8
Aluminum alloy ingots	2,210,904	12.7	3,093,066	22.9
Aluminum busbars	–	–	1,730	0.1
Aluminum fabrication	810,400	4.7	206,196	1.5
Steam	63,025	0.4	100,944	0.7
Total	17,368,107	100.0	13,501,821	100.0

As for its products, the Group's revenue derived from aluminum products was approximately RMB17,305,082,000, accounting for approximately 99.6% of total revenue for the six months ended 30 June 2014. Among which, the revenue derived from molten aluminum alloy accounted for approximately 82.2% of total revenue, representing an increase in percentage share as compared with the corresponding period of the previous year, mainly attributable to the increase in consumption of aluminium products by downstream enterprises in industry clusters which led to the increase in sales volume of molten aluminum alloy. Revenue derived from sales of steam was approximately RMB63,025,000, accounting for approximately 0.4% of the Group's total revenue and representing a decrease in percentage share as compared with the corresponding period of the previous year. The decrease in revenue derived from sales of steam was mainly because the Group used more steam during the process of major raw materials production, thus the steam available for sale decreased accordingly.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis on the Group's revenue, gross profit and gross profit margin derived from its major products for the six months ended 30 June 2014 and 2013, respectively:

Products	Unaudited					
	For the six months ended 30 June					
	2014			2013		
	Revenue	Gross profit	Gross profit	Revenue	Gross profit	Gross profit
	RMB'000	RMB'000	Margin	RMB'000	RMB'000	Margin
			%			%
Aluminum products	17,305,082	3,783,649	21.9	13,400,877	3,938,151	29.4
Steam	63,025	26,801	42.5	100,944	35,408	35.1
Total:	17,368,107	3,810,450	21.9	13,501,821	3,973,559	29.4

For the six months ended 30 June 2014, the overall gross profit margin of the Group's products decreased by approximately 7.5 percentage points to approximately 21.9% as compared with approximately 29.4% for the corresponding period of the previous year. This was mainly due to the decrease in unit sale price of the Group's aluminum products as compared with the corresponding period of the previous year led by the low price of the aluminum products in China during the Period, resulting in the narrowing down of profit margin. The Group expects the gradual increase in ratio of self-supplied electricity and self-supplied alumina to continue to bring positive impacts to its overall gross profit margin.

Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 81.8% to approximately RMB55,623,000 for the six months ended 30 June 2014 from approximately RMB30,588,000 for the corresponding period of the previous year, which was mainly attributable to the increase of transportation fees due to the increase in sales volume of the Group's aluminium products.

Management Discussion and Analysis

Administrative expenses

Administrative expenses of the Group for the six months ended 30 June 2014 amounted to approximately RMB267,136,000, representing an increase of approximately 20.8% as compared with approximately RMB221,121,000 for the corresponding period of the previous year. Such increase was mainly due to an increase in the number of administrative staff and their remuneration brought by the expansion of the Group's production scale, as well as the Group's building of new plant resulting in the increase in corresponding property tax and land use tax payables and the increased issuance of the letter of credit for imported bauxite and production equipment resulting in the increase in bank charges.

Other expenses

For the six months ended 30 June 2014, other expenses of the Group amounted to approximately RMB1,029,000, which were mainly used by payments for the fees of professional parties engaged by the Group.

Finance costs

For the six months ended 30 June 2014, finance costs of the Group were approximately RMB742,337,000, representing an increase of approximately 7.9% as compared with approximately RMB687,837,000 for the corresponding period of the previous year. This was mainly due to an increase in total liabilities as compared with the corresponding period of the previous year, resulting in an increase in interest expenses charged to the Group correspondingly.

Liquidity and financial resources

As of 30 June 2014, cash and cash equivalents of the Group were approximately RMB10,390,834,000, representing an increase of approximately 63.3% as compared with that of approximately RMB6,362,070,000 as at 31 December 2013.

The Group principally satisfies its demand for working capital through cash inflow from operating activities. For the six months ended 30 June 2014, the Group had a net cash outflow from investing activities of approximately RMB3,093,693,000, a net cash inflow from financing activities of approximately RMB904,867,000 and a net cash inflow from operating activities of approximately RMB6,184,885,000.

For the six months ended 30 June 2014, the capital expenditure of the Group amounted to approximately RMB3,518,609,000, mainly for the expansion of its aluminum production capacity and construction projects of aluminum advanced processing facilities, ancillary captive power production facilities and the alumina production base in Indonesia.

Management Discussion and Analysis

As of 30 June 2014, the Group had a capital commitment of approximately RMB17,123,173,000, representing capital expenditure for acquiring property, plant and equipment in the future, primarily for the production capacity expansion of aluminum products, the construction of the aluminum advanced processing facilities, ancillary captive power production facilities and the alumina production base in Indonesia, as well as the acquisition of a bauxite mine in the Republic of Guinea, Africa.

For the six months ended 30 June 2014, the Group's average turnover days of trade receivables were approximately 4 days, representing an increase of 2 days as compared with approximately 2 days for the corresponding period of the previous year. This was mainly because of the Group's sales mode of settlement being payment on delivery and credit periods granted to clients of aluminium fabrication segment. With the increasing sales volume of aluminum fabrication, the Group's average turnover days of trade receivables increased. However, the Group required prepayment before delivery of most aluminum products, and if the value of actual shipment exceeded the prepayment, the Group would grant its customers a credit period of not more than 90 days. Therefore, the Group's trade receivables turnover period was generally quite short.

For the six months ended 30 June 2014, the Group's turnover days of inventory were approximately 131 days, representing an increase of 39 days as compared with approximately 92 days for the corresponding period of the previous year, mainly as a result of, on one hand, an expansion in production scale of the Group, which in turn led to an increase in the inventory of raw materials required for its production, and an increase in work-in-process products as a result of the operation of the new production line for aluminum products, and on the other hand, the increased bauxite reserve of the Group in the second half of 2013 to ensure the supply of raw materials and to minimize the adverse impact to the Group due to the prohibition of exporting the bauxite in Indonesia.

Income tax

The Group's income tax for the first half of 2014 amounted to approximately RMB799,552,000, representing a decrease of approximately 5.5% as compared with approximately RMB845,872,000 for the corresponding period of the previous year, which was mainly attributable to the decrease of the Group's profit before taxation and the increase of deferred tax expense.

Net profit attributable to owners of the Company and earnings per share

The net profit attributable to owners of the Company was approximately RMB2,037,102,000 for the six months ended 30 June 2014, representing a decrease of approximately 27.5% as compared with approximately RMB2,810,012,000 for the corresponding period of the previous year. The basic earnings per share of the Company for the Period were approximately RMB0.35.

Interim dividends

The Board did not recommend any interim dividends for the six months ended 30 June 2014 (corresponding period in 2013: Nil).

Management Discussion and Analysis

Capital structure

The Group has built an appropriate liquidity risk management framework to manage its short, medium and long-term funding and to satisfy its liquidity management requirements. Cash and cash equivalents of the Group amounted to approximately RMB10,390,834,000 as of 30 June 2014 (31 December 2013: approximately RMB6,362,070,000), which were mainly deposited with commercial banks. As of 30 June 2014, the total liabilities of the Group amounted to approximately RMB43,148,349,000 (31 December 2013: approximately RMB38,295,991,000). Gearing ratio (total liabilities to total assets) was approximately 60.8% (31 December 2013: approximately 58.8%).

As of 30 June 2014, the Group's total bank loans were approximately RMB17,649,733,000. The Group maintained a balanced portfolio of loans at fixed interest rates and variable interest rates to manage its interest expenses. As of 30 June 2014, approximately 31.8% of the Group's bank borrowings were subject to fixed interest rates while the remaining approximately 68.2% were subject to floating interest rates.

The Group used certain restricted bank deposits, bill receivables, equipment and prepaid lease payments as collateral for its bank borrowings to finance part of its daily operations and project construction. As of 30 June 2014, the Group's secured bank borrowings amounted to approximately RMB1,207,690,000 (31 December 2013: approximately RMB4,384,686,000).

The Group aims to maintain a balance between the continuity and flexibility of funds through bank loans. As of 30 June 2014, approximately 46.8% of the Group's bank borrowings will become due within one year.

As of 30 June 2014, the Group's bank borrowings were mostly denominated in RMB, US dollars and HK dollars, accounting for approximately 46.1%, 50.0% and 3.9% of the total bank borrowings, respectively. Cash and cash equivalents were mainly held in RMB and US dollars, of which approximately 65.3% was held in RMB and approximately 34.6% was held in US dollars.

Employee and remuneration policy

As of 30 June 2014, the Group had a total of 40,021 employees, representing an increase of 8,149 employees as compared with the corresponding period of the previous year. As a result of the expansion of its production capacity during the Period, the Group recruited additional staff to meet the requirements of its production and enrich its reserve of human resources at the same time. During the Period, total staff costs of the Group amounted to approximately RMB1,037,250,000, representing approximately 6.0% of its total revenue. The remuneration packages of the employees include salary and various types of benefits.

In addition, the Group established a performance-based remuneration system under which the employees may be awarded with additional bonuses. The Group provided training programs for its employees to equip them with the requisite skills and knowledge.

Management Discussion and Analysis

Exposure to foreign exchange risk

The Group collected all of the revenue in RMB and funded most of the capital expenditure in RMB. As certain bank balances and borrowings are denominated in foreign currencies, the Group is exposed to certain currency risks. As of 30 June 2014, its bank balances denominated in foreign currencies were approximately RMB3,600,990,000 and bank borrowings were approximately RMB9,512,733,000. For the six months ended 30 June 2014, the Group recognized foreign exchange loss of approximately RMB211,247,000.

Contingent liabilities

As of 30 June 2014, the Group did not have any contingent liabilities.

OUTLOOK

The Group believes that the rebound of aluminum price from the bottom is not only a favorable news to aluminum manufacturers in China, but also an obvious signal indicating that Chinese aluminum industry is experiencing an actual recovery. Besides striving to expand its business, the Group is well-positioned to seize the development opportunities to be brought by the upcoming market recovery so as to consolidate its leading position in Chinese aluminum industry.

For “Integration of Aluminum, Electricity and Grid”, the Group expanded its self-owned power plants as scheduled to ensure the electricity supply for the Group’s newly added production capacity of aluminum products, and to keep increasing the ratio of self-supplied electricity, which will contribute to the Group’s further control over production costs and enhancement of market competitiveness.

In terms of “Integration of Upstream and Downstream Businesses”, the Group continued to expand the procurement channels of raw materials to ensure a stable long-term supply of bauxite. The first phase of construction of the Group’s joint venture for alumina production in Indonesia is well under progress, and is expected to commence operation by the end of 2015. In addition, the Group entered into a supply agreement with bauxite suppliers in the Republic of India and Commonwealth of Australia for a term of three years. Also, the Group is likely to acquire a bauxite mine with reserve of 2.2 billion tons of bauxite in the Republic of Guinea, Africa. Meanwhile, the Group will continue to extend the business to downstream of industry chain, enrich product mix and make progress in aluminum fabrication processing project and optimize the industry cluster development model in order to further increase the Group’s long-term economic efficiency.

Looking forward, with stable development, the Group will thoroughly consider the market situation to seize the advantageous development opportunities in the ever-changing market and keep enhancing its core competitiveness with a goal to become a large-scale comprehensive aluminum product manufacturer with leading cost advantage and a vertically integrated industry chain.

Supplementary Information

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As of 30 June 2014, so far as it is known to any Director or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group as follows:

Name of shareholder	Capacity/type of interest	Total number of shares held	Approximate percentage of shareholding in the issued share capital (%)
Mr. ZHANG Shiping ⁽¹⁾	Interest of a controlled corporation	5,000,000,000	84.96
Ms. ZHENG Shuliang ⁽²⁾	Spouse	5,000,000,000	84.96
Prosperity Eastern Limited ⁽³⁾	Trustee	5,000,000,000	84.96
China Hongqiao Holdings Limited ("Hongqiao Holdings")	Beneficiary	5,000,000,000	84.96

Notes:

- (1) Mr. ZHANG Shiping is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the shares of the Company held by Hongqiao Holdings.
- (2) Ms. ZHENG Shuliang, the spouse of Mr. ZHANG Shiping, is deemed to be interested in all the shares of the Company in which Mr. ZHANG Shiping is interested.
- (3) Prosperity Eastern Limited held these shares as trustee on behalf of Mr. ZHANG Shiping.

Save as disclosed above, as of 30 June 2014, no other person had any share, interest in shares or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group.

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As of 30 June 2014, the Directors and chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be entered in the register described in the provisions pursuant to Section 352 of the SFO; or to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in the shares of the Company

Name of director	Capacity/type of interest	Number of total shares held	Approximate percentage of shareholding in the issued shares (%)
Mr. ZHANG Shiping ⁽¹⁾	Interest of a controlled corporation	5,000,000,000	84.96
Ms. ZHENG Shuliang ⁽²⁾	Spouse	5,000,000,000	84.96

Notes:

(1) The interests of Mr. ZHANG Shiping in the Company were held through its wholly-owned investment company Hongqiao Holdings.

(2) Ms. ZHENG Shuliang, the spouse of Mr. ZHANG Shiping, is deemed to be interested in all the shares of the Company in which Mr. ZHANG Shiping is interested.

Save as disclosed above, as of 30 June 2014, none of the Directors or the chief executive of the Company or any of their spouse or children under the age of 18 had or were deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company or any of its holding companies, subsidiaries or associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Section 352 of the SFO, or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code. At no time was the Company or any of its holding companies or subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company (including their spouse or children under the age of 18) to acquire any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).



Supplementary Information

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2014 and up to the date of this report, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the Code of Best Practices for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An Audit Committee meeting was held on 15 August 2014 to review the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014. The Audit Committee considers that the interim financial results for the six months ended 30 June 2014 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

PURCHASE, REDEMPTION OR SALE 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 period from 1 January 2014 to 30 June 2014 and up to the date of this report.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the six months ended 30 June 2014 and up to the date of this report.

COMPLIANCE WITH PROVISIONS OF CORPORATE GOVERNANCE CODE

The Company has applied the principles as set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Listing Rules. For the six months ended 30 June 2014, the Company has complied with the mandatory provisions of the CG Code.

Supplementary Information

CONVERTIBLE BONDS

Pursuant to the announcement of the Company issued on 21 March 2012 in relation to the proposed issue of US\$150,000,000 6.5% p.a. convertible bonds due 2017, all conditions precedent under the Subscription Agreement have been satisfied (or waived) and completion of the Subscription Agreement took place on 10 April 2012. For further details, please refer to the above mentioned announcement.

Approval has been granted for the listing of the Convertible Bonds on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Convertible Bonds have been listed and quoted on the SGX-ST with effect from 9:00 a.m. 11 April 2012. The SGX-ST's approval in-principle granted for the listing of the Convertible Bonds is not to be taken as an indication of the merits of the Convertible Bonds. Approval for the listing of, and permission to deal in, the Conversion Shares has been granted by the Hong Kong Stock Exchange.

ISSUANCE OF SENIOR NOTES

In accordance with the announcement of the Company dated 20 June 2014, which was related to the issuance of US\$400,000,000 7.625% p.a. senior notes due 2017, on 19 June 2014, the Company and the subsidiary guarantors entered into the purchase agreement with Deutsche Bank, ANZ, Crédit Agricole CIB, Morgan Stanley, Barclays and The Royal Bank of Scotland in connection with the issue of 7.625% p.a. senior notes due 2017 in the aggregate principal amount of US\$400,000,000. Please refer to the above mentioned announcement for further details.

Approval has been obtained from SGX-ST for the listing of the senior notes. Senior notes have been listed and started trading on the SGX-ST from 9:00 a.m. on 27 June 2014. Approval for the listing of senior notes on the SGX-ST is not to be taken as an indication of the merits of the Company and its subsidiary or the senior notes.

DISCLOSURE OF INFORMATION ON WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

The electronic version of this interim report will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company's website at www.hongqiaochina.com. The interim report will be dispatched to shareholders on or before 5 September 2014 and will be available on the Company's website and the website of the Hong Kong Stock Exchange at the same time.

Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF CHINA HONGQIAO GROUP LIMITED

INTRODUCTION

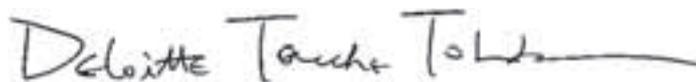
We have reviewed the condensed consolidated financial statements of China Hongqiao Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 22 to 50, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue	4	17,368,107	13,501,821
Cost of sales		(13,557,657)	(9,528,262)
Gross profit		3,810,450	3,973,559
Other income and gains and losses	5	101,114	422,299
Distribution and selling expenses		(55,623)	(30,588)
Administrative expenses		(267,136)	(221,121)
Finance costs	6	(742,337)	(687,837)
Other expenses		(1,029)	(5,493)
Changes in fair value of derivative component		(20,985)	198,983
Profit before taxation	7	2,824,454	3,649,802
Income tax expense	8	(799,552)	(845,872)
Profit for the period		2,024,902	2,803,930
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		6,715	(5,885)
Total comprehensive income for the period		2,031,617	2,798,045
Profit for the period attributable to:			
Owners of the Company		2,037,102	2,810,012
Non-controlling interests		(12,200)	(6,082)
		2,024,902	2,803,930
Total comprehensive income for the period attributable to:			
Owners of the Company		2,041,130	2,806,481
Non-controlling interests		(9,513)	(8,436)
		2,031,617	2,798,045
Earnings per share	10		
Basic (RMB)		0.35	0.48
Diluted (RMB)		0.35	0.44

Condensed Consolidated Statement of Financial Position (Unaudited)

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	11	42,028,830	39,996,661
Prepaid lease payments-non-current portion		1,193,627	1,138,979
Deferred tax assets		74,732	134,164
Deposits paid for acquisition of property, plant and equipment		2,355,837	2,040,102
		45,653,026	43,309,906
Current Assets			
Prepaid lease payments-current portion		26,587	25,160
Inventories	12	9,360,806	10,136,223
Trade receivables	13	238,567	160,935
Bills receivable	14	2,498,934	2,048,498
Prepayments and other receivables		1,272,176	1,465,168
Restricted bank deposits	15	1,516,273	1,670,576
Bank balances and cash	15	10,390,834	6,362,070
		25,304,177	21,868,630
Current Liabilities			
Trade payables	16	3,265,304	1,995,649
Other payables	17	6,014,497	5,344,024
Dividends payable		42	–
Income tax payable		293,648	353,104
Bank borrowings – due within one year	18	8,259,757	9,565,774
Other borrowings – due within one year	18	150,000	95,000
Short-term debentures	19	5,000,000	4,000,000
Held-for-trading financial liabilities		–	5,278
Convertible bonds – liability component	20	779,520	–
Convertible bonds – derivative component	20	88,539	–
		23,851,307	21,358,829
Net Current Assets		1,452,870	509,801
Total Assets less Current Liabilities		47,105,896	43,819,707

Condensed Consolidated Statement of Financial Position (Unaudited)

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Capital and Reserves			
Share capital		386,206	386,206
Share premium and reserves		27,068,068	26,288,167
Equity attributable to owners of the Company		27,454,274	26,674,373
Non-controlling interests		354,580	208,172
Total Equity		27,808,854	26,882,545
Non-current liabilities			
Bank borrowings – due after one year	18	9,389,976	9,655,059
Other borrowings – due after one year	18	135,000	235,000
Deferred tax liabilities		25,690	40,000
Convertible bonds – liability component		–	750,001
Convertible bonds – derivative component		–	67,554
Medium-term debentures	21	7,325,719	6,189,548
Guaranteed notes	22	2,420,657	–
		19,297,042	16,937,162
		47,105,896	43,819,707

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2014

	Attributable to owners of the Company						Non-controlling		
	Share capital	Share premium	Capital reserve	Translation reserve	Statutory surplus reserve	Retained earnings	Total	interests	Total
	RMB'000	RMB'000	RMB'000 (note 1)	RMB'000	RMB'000 (note 2)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014 (audited)	386,206	4,832,946	793,349	(13,613)	3,104,226	17,571,259	26,674,373	208,172	26,882,545
Exchange difference on translation of foreign operations	-	-	-	4,028	-	-	4,028	2,687	6,715
Profit for period	-	-	-	-	-	2,037,102	2,037,102	(12,200)	2,024,902
Total comprehensive income for the period	-	-	-	4,028	-	2,037,102	2,041,130	(9,513)	2,031,617
Dividend declared (Note 9)	-	-	-	-	-	(1,261,229)	(1,261,229)	-	(1,261,229)
Advance contribution from Non-controlling shareholders	-	-	-	-	-	-	-	155,921	155,921
At 30 June 2014 (unaudited)	386,206	4,832,946	793,349	(9,585)	3,104,226	18,347,132	27,454,274	354,580	27,808,854
At 1 January 2013 (audited)	386,206	4,832,946	793,349	-	2,558,318	13,742,436	22,313,255	24,642	22,337,897
Exchange difference on translation of foreign operations	-	-	-	(3,531)	-	-	(3,531)	(2,354)	(5,885)
Profit for period	-	-	-	-	-	2,810,012	2,810,012	(6,082)	2,803,930
Total comprehensive income for the period	-	-	-	(3,531)	-	2,810,012	2,806,481	(8,436)	2,798,045
Dividend declared (Note 9)	-	-	-	-	-	(1,217,944)	(1,217,944)	-	(1,217,944)
At 30 June 2013 (unaudited)	386,206	4,832,946	793,349	(3,531)	2,558,318	15,334,504	23,901,792	16,206	23,917,998

Notes:

- (1) Capital reserve represents (i) the effect of the group reorganisation completed in March 2010 and (ii) deemed capital contribution from its equity holders.
- (2) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China ("PRC"), those subsidiaries are required to transfer 5% to 10% of the profit after taxation reported under the relevant accounting policies and financial regulations in the PRC (the "PRC GAAP") to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Net cash generated from operating activities	6,184,885	254,019
Addition to property, plant and equipment	(3,209,455)	(6,096,344)
Addition to prepaid lease payments	(68,797)	–
Interest received	28,241	36,479
Purchases of available-for-sale investments	–	(1,700,000)
Placement of restricted bank deposits	(407,167)	(655,336)
Withdrawal of restricted bank deposits	561,470	277,469
Proceeds on disposal of property, plant and equipment	2,015	–
Net cash used in investing activities	(3,093,693)	(8,137,732)
Dividends paid	(1,261,187)	(1,217,942)
New bank borrowings raised	10,827,142	7,642,093
Repayments of bank borrowings	(12,398,242)	(2,456,665)
Proceeds from issue of medium-term debentures	1,200,000	4,500,000
Payment of transaction costs on issue of medium-term debentures	(12,900)	(31,973)
Proceeds from issue of short-term debentures	3,000,000	2,000,000
Repayments of short-term debentures	(2,000,000)	–
Payment of transaction costs on issue of short-term debentures	(16,500)	(12,000)
Other borrowings raised	–	390,000
Repayments of other borrowings	(45,000)	(20,000)
Proceeds from issue of guaranteed notes	2,461,120	–
Payment of transaction costs on issue of guaranteed notes	(43,070)	–
Interest paid	(962,417)	(501,242)
Advance contribution from non-controlling shareholders	155,921	–
Net cash generated from financing activities	904,867	10,292,271
Net increase in cash and cash equivalents	3,996,059	2,408,558
Cash and cash equivalents at 1 January	6,362,070	9,174,943
Effect of foreign exchange rate changes	32,705	(1,438)
Cash and cash equivalents at 30 June, represented by bank balances and cash	10,390,834	11,582,063

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands, and its principal place of business is located at Huixian One Road, Zouping Economic Development District, Zouping County, Shandong Province, PRC. The Company is an investment holding company.

The Company's subsidiaries are principally engaged in the business of manufacture and sales of aluminum products.

The condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following amendments and interpretation ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB") that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

The application of the above new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

3. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors of the Company, the Group's chief operating decision maker, in order to allocate resources to segments and to assess their performance. The information reported to executive directors of the Company for the purpose of resource allocation and assessment of performance, includes revenue analysis by products and revenue from steam supply and does not contain profit information by product line or profit from steam supply. The executive directors reviewed the gross profit of the Group as a whole reported under relevant accounting regulations of the PRC which has no significant differences as compared with gross profit reported under IFRSs. It was determined that the Group has only one single operating segment, being the manufacture and sales of aluminum products. As a result, no segment information is presented.

No segment assets, liabilities and other segment related information were presented as no such discrete financial information are provided to the chief operating decision maker.

4. REVENUE

The Group is principally engaged in the manufacture and sales of aluminum products.

The Group's revenue represents the amount received and receivable for sales of aluminum products and steam supply.

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue from sales of goods		
Aluminum products		
– molten aluminum alloy	14,283,778	10,099,885
– aluminum alloy ingots	2,210,904	3,093,066
– aluminum busbars	–	1,730
– aluminum fabrication	810,400	206,196
Steam supply income	63,025	100,944
	17,368,107	13,501,821

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

5. OTHER INCOME AND GAINS AND LOSSES

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Interest income	28,241	36,479
Net gain on sales of scrap materials and raw materials (note)	109,768	58,453
Revenue from sales of slag of carbon anode blocks	105,907	142,881
Foreign exchange (losses) gains, net	(211,247)	152,413
Investment income from held-for-trading investment	(2,035)	–
Gain on disposal of property, plant and equipment	190	–
Gain (loss) from changes in fair value of held-for-trading financial liabilities	5,278	(519)
Others	65,012	32,592
	101,114	422,299

Note: The revenues and expenses resulting in the net gain on sales of scrap materials and raw materials are as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Revenue from sales of scrap materials and raw materials	139,524	75,886
Cost related to sales of scrap materials and raw materials	(29,756)	(17,433)
	109,768	58,453

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

6. FINANCE COSTS

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Interest expenses on bank borrowings		
– wholly repayable within five years	526,338	505,894
Interest expenses on convertible bonds (Note 20)	59,502	38,719
Interest expenses on medium-term debentures	229,571	130,486
Interest expenses on short-term debentures	132,005	31,333
Interest expenses on other borrowings	10,091	8,050
Interest expenses on guaranteed notes	2,607	–
Less: amount capitalised under construction in progress	(217,777)	(26,645)
Total	742,337	687,837

Borrowing costs capitalised during the period are calculated by applying a capitalisation rate of 7.37% (six months ended 30 June 2013: 6.80%) per annum to expenditure on qualifying assets.

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Depreciation of property, plant and equipment	1,484,615	919,775
Cost of inventories recognised as an expense	13,488,703	9,492,869
Amortisation of prepaid lease payments	12,722	11,189

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	748,987	898,278
Hong Kong profit tax	5,443	52,461
Deferred tax charge (credit)	45,122	(104,867)
	799,552	845,872

Under the Law of PRC on Enterprise Income Tax ("the EIT Law") and implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

In addition, the EIT Law provides that qualified dividend income between two "PRC-resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. Deferred tax liability at the amount of RMB25,690,000 (six months ended 30 June 2013: RMB12,708,000) is recognised in respect of the PRC subsidiaries' undistributed profits generated in the current interim period.

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the period.

The Company and its subsidiaries incorporated in BVI and Indonesia had no assessable profits since their incorporation.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

9. DIVIDENDS

Dividends declared for distribution during the period:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
2013 final dividends – HK27 cents per share	1,261,229	–
2012 final dividends – HK26 cents per share	–	1,217,944
	1,261,229	1,217,944

During the current interim period, a final dividend of HK\$1,588,950,000 (equivalent to approximately RMB1,261,229,000), at HK27 cents per share in respect of the year ended 31 December 2013, based on 5,885,000,000 shares as at 31 December 2013 (six months ended 30 June 2013: HK\$1,530,100,000 (equivalent to approximately RMB1,217,944,000), at HK26 cents per share in respect of the year ended 31 December 2012) was declared to the owners of the Company.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 and six months ended 30 June 2013.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Earnings for the purpose of basic earnings per share		
Profit for the period attributable to owners of the Company	2,037,102	2,810,012
Effect of effective interest on the liability component of convertible bonds (Note 20)	–	38,719
Effect of fair value gain recognised on the derivative component of convertible bonds (Note 20)	–	(198,983)
Earnings for the purpose of diluted earnings per share	2,037,102	2,649,748

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

10. EARNINGS PER SHARE (CONTINUED)

Weighted average number of shares	Six months ended 30 June	
	2014	2013
	'000 shares	'000 shares
Number of ordinary shares for the purpose of basic earnings per share	5,885,000	5,885,000
Effect of conversion of convertible bonds	–	173,626
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,885,000	6,058,626

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment approximately RMB245,875,000 (six months ended 30 June 2013: approximately RMB224,327,000), spent approximately RMB3,272,734,000 (six months ended 30 June 2013: RMB5,921,370,000) on the construction of its new product lines and power plant, and disposed property, plant and equipment with carrying amount of approximately RMB1,825,000 (six months ended 30 June 2013: Nil).

Property with carrying amount of RMB3,914,730,000 (31 December 2013: RMB3,472,317,000) located in the PRC is in the process of obtaining the property certificate.

The Group has pledged certain property, plant and equipment as disclosed in Note 23.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

12. INVENTORIES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Raw materials	6,500,980	7,445,999
Work in process	2,791,703	2,596,107
Finished goods	68,123	94,117
	9,360,806	10,136,223

13. TRADE RECEIVABLES

The Group has a policy of allowing credit period of no more than 90 days to its trade customers with trading history, or otherwise sales on cash terms are required.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0-90 days	238,567	160,935

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

14. BILLS RECEIVABLE

The credit period of bills receivable is normally no more than six months.

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Bills receivable	2,498,934	2,048,498

The aged analysis of bills receivable presented based on the issue date at the end of the reporting period is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0-90 days	1,287,395	1,036,277
91-180 days	1,211,539	1,012,221
	2,498,934	2,048,498

The Group has pledged the bills receivable as disclosed in Note 23.

15. RESTRICTED BANK DEPOSITS AND BANK BALANCES

Restricted bank deposits represent the Group's bank deposits pledged to banks for issuance of letter of credit and letter of guarantee.

The pledged bank deposits carry market interest rate of 0.35% to 3.85% per annum as of 30 June 2014 (31 December 2013: 0.35% to 3.3%).

Bank balances and cash at 30 June 2014 were mainly denominated in RMB which is not a freely convertible currency in the international market.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

16. TRADE PAYABLES

Trade payables principally comprise amounts outstanding for purchases of goods. The average credit period is 180 days.

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
0-180 days	2,896,970	1,956,151
181-365 days	339,099	33,049
1-2 years	28,361	5,721
Over 2 years	874	728
	3,265,304	1,995,649

17. OTHER PAYABLES

An analysis of other payables of the Group is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Payables on property, plant and equipment	3,815,482	3,527,147
Retention payables	1,363,105	1,244,331
Other payables and accruals	202,886	217,958
Advance from customers	105,141	270,795
Accrued payroll and welfare	103,024	52,283
Other tax payables	424,859	31,510
	6,014,497	5,344,024

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

18. BANK AND OTHER BORROWINGS

(a) Bank borrowings

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Secured bank borrowings (Note i)	1,207,690	831,058
Unsecured bank borrowings (Note ii)	13,534,079	14,836,147
Secured syndicated loans	–	3,553,628
Unsecured syndicated loans	2,907,964	–
	17,649,733	19,220,833
The total borrowings are repayable as follows (Note iii):		
Within one year	8,259,757	9,565,774
In the second year	4,092,197	4,387,532
In the third year	5,297,779	4,367,527
In the fourth year	–	900,000
	17,649,733	19,220,833
Less: Amount due for settlement within one year and shown under current liabilities	8,259,757	9,565,774
Amount due after one year	9,389,976	9,655,059
Total borrowings		
– at fixed rates	5,606,779	5,111,325
– at floating rates	12,042,954	14,109,508
	17,649,733	19,220,833
Analysis of borrowings by currency:		
– denominated in RMB	8,137,000	7,874,500
– denominated in US\$	8,828,451	10,515,398
– denominated in HK\$	684,282	830,935
	17,649,733	19,220,833

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

18. BANK AND OTHER BORROWINGS (CONTINUED)

(a) Bank borrowings (continued)

Notes:

- i. The balance of borrowings amounting to RMB369,169,000 (31 December 2013: Nil) which are guaranteed by non-controlling shareholders was included in secured bank borrowings.
- ii. The balance of borrowings which are guaranteed by related party was included in unsecured bank borrowings (note 26(d)).
- iii. The amounts due are based on scheduled repayment dates set out in the loan agreements. As at 30 June 2014 and 31 December 2013, no bank borrowings have contained a repayment on demand clause.

Fixed interest rate borrowings are charged at rates ranging from 1.2% to 7.8% (31 December 2013: 1.2% to 8.11%) per annum as at 30 June 2014.

Interest on borrowings denominated in RMB at floating rates are calculated based on the borrowing rates announced by the People's Bank of China, and interest on borrowings denominated in US\$ and HK\$ at floating rates are calculated based on London Interbank Offered Rate and Hong Kong Interbank Offered Rate respectively.

The effective weighted average interest rate for the six months ended 30 June 2014 was 5.03% (31 December 2013: 4.99%) per annum.

(b) Other borrowings

As of 30 June 2014, the Company's subsidiary, Shandong Weiqiao Alumina & Power Ltd. ("Alumina & Power") pledged certain equipment to secure other borrowings of the Group with carrying amount amounting to RMB285,000,000 (31 December 2013: RMB330,000,000), and during the six months ended 30 June 2014, the Group has repaid the other borrowings amounting to RMB45,000,000 (six months ended 30 June 2013: RMB20,000,000). The secured other borrowings was lent by RBS Leasing (China) Co., Ltd, an independent third party, for three years tenor with repayment in 12 installments and interest bearing at 6.27% per annum. Alumina & Power has the right to purchase the pledged equipment after 3 years from RBS Leasing (China) Co., Ltd with nominal consideration of RMB1.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

19. SHORT-TERM DEBENTURES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Short-term debentures	5,000,000	4,000,000

Pursuant to the approval [2013] No. CP93 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 20 March 2013, NAFMII granted an approval to a wholly-owned subsidiary of the Company, Alumina & Power, to issue short-term debentures with a maximum limit of RMB2,000,000,000 up to 20 March 2015.

On 11 June 2014, Alumina & Power issued the first tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 11 June 2015. The debentures bear fixed interest at 5.98% per annum. Interest is payable annually in arrears.

On 13 June 2014, Alumina & Power issued the second tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 13 June 2015. The debentures bear fixed interest at 5.88% per annum. Interest is payable annually in arrears.

Pursuant to the approval [2013] No. CP216 issued by NAFMII dated 24 May 2013, NAFMII granted an approval to a wholly-owned subsidiary of the Company, Shandong Hongqiao New Material Co., Ltd. ("Shandong Hongqiao"), to issue short-term debentures with a maximum limit of RMB2,000,000,000 up to 24 May 2015.

On 22 July 2013, Shandong Hongqiao issued the first tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 22 July 2014. The debentures bear fixed interest at 6.5% per annum. Interest is payable annually in arrears.

On 24 October 2013, Shandong Hongqiao issued the second tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 24 October 2014. The debentures bear fixed interest at 6.60% per annum. Interest is payable annually in arrears.

Pursuant to the approval [2014] No. PPN153 issued by NAFMII dated 25 March 2014, NAFMII granted an approval to Shandong Hongqiao to issue short-term debentures with a maximum limit of RMB3,000,000,000 up to 25 March 2016.

On 25 April 2014, Shandong Hongqiao issued the first tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 25 April 2015. The notes bear fixed interest at 8.30% per annum. Interest is payable annually in arrears.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

20. CONVERTIBLE BONDS

On 10 April 2012, the Company issued a 6.5% Convertible Bond due 2017 in the aggregate principal amount of US\$150,000,000 (the "Convertible Bonds"). The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The principal terms of the Convertible Bonds are as follows:

(a) Optional conversion

The Convertible Bonds will, at the option of the holder ("Bondholders"), be convertible (unless previously converted, redeemed or purchased and cancelled) on or after 21 May 2012 up to and including 1 April 2017 into fully paid ordinary shares with a par value of US\$0.01 each at an initial conversion price (the "Conversion Price") of HK\$7.27 per share and a fixed exchange rate of HK\$7.7623 to US\$1.00 (the "Prevailing Rate"). The Conversion Price is subject to adjustments in the manner set out in the Convertible Bonds agreement.

As disclosed in Note 9, a final dividend of HK26 cents per share for the year ended 31 December 2012 was approved in the annual general meeting in May 2013. Pursuant to the Convertible Bonds agreement, the Conversion Price per share was adjusted from HK\$6.81 to HK\$6.33 effective from 27 May 2013.

As disclosed in Note 9, a final dividend of HK27 cents per share for the year ended 31 December 2013 was approved in the annual general meeting in May 2014. Pursuant to the Convertible Bonds agreement, the Conversion Price per share was adjusted from HK\$6.33 to HK\$5.98 effective from 9 June 2014.

(b) Redemption

– Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem the Convertible Bonds at the principal amount together with unpaid accrued interest thereon on 10 April 2017.

– Redemption at the option of the Company

On giving not less than 30 nor more than 90 days' notice, the Company may at any time after 10 April 2015 redeem all, but not some only, of the Convertible Bonds for the time being outstanding at the principal amount, together with interest accrued but unpaid to the date fixed for redemption, provided that the closing price of the shares translated into US\$ at the prevailing foreign exchange rate applicable to the relevant trading day for 20 out of 30 consecutive trading day prior to the date upon which notice of such redemption is published, was at least 130 percent of the principal amount of the Convertible Bonds divided by the Conversion Price.

On giving not less than 30 nor more than 60 days' notice, the Company may redeem all, but not some only, of the Convertible Bonds for the time being outstanding at the principal amount, together with interest accrued to the date fixed for redemption provided that prior to the date of such notice at least 90 per cent in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

20. CONVERTIBLE BONDS (CONTINUED)

(b) Redemption (continued)

– Redemption at the option of the Bondholders

The Company will at the option of the Bondholder, redeem all or some of the Convertible Bonds on 10 April 2015 at the principal amount together with interest accrued to the date fixed for redemption.

The Convertible Bonds comprised of two components:

- (i) Liability component is initially measured at fair value amounted to approximately RMB712,122,000. It is subsequently measured at amortised cost by applying an effective interest rate of 14.70% after considering the effect of the transaction costs.
- (ii) Derivative component comprise:
 - Redemption option of Bondholders;
 - Redemption option of the Company;
 - Conversion option of the Bondholders.

Transaction costs that relate to the issue of the Convertible Bonds are allocated to the liability and the derivative (including conversion option and redemption options) components in proportion to their relative fair values. Transaction costs amounting to approximately RMB6,854,000 relating to the derivative component were charged to profit or loss immediately. Transaction costs amounting to approximately RMB20,911,000 relating to the liability component are included in the carrying amount of the liability portion at initial recognition and amortised over the period of the Convertible Bonds using the effective interest method.

The derivative component was valued at fair value by the directors with reference to valuation carried out by an independent valuation firm, Grant Sherman Appraisal Limited. The fair value of the derivative component is derived by deducting the fair value of the liability component from the fair value of Convertible Bonds as a whole which is calculated using Binomial Option Pricing Model. The major inputs used in the models as at 31 December 2013 and 30 June 2014 were as follows:

	At 30 June 2014	At 31 December 2013
Stock price	HK\$5.57	HK\$5.34
Exercise price	HK\$5.98	HK\$6.33
Risk-free rate	0.70%	0.78%
Expected life	2.78 years	3.28 years
Volatility	37.75%	40.27%

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

20. CONVERTIBLE BONDS (CONTINUED)

The risk free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected life was estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of the Company.

The fair value of the liability component of the Convertible Bonds is derived by using discounted cash flow method. The discount rate is 6.152% (31 December 2013: 5.93%) as of 30 June 2014.

Any changes in the major inputs into the model may result in changes in the fair value of the derivative component.

The movement of the liability and derivative component of the Convertible Bonds for the period is set out below:

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
Convertible bonds at 31 December 2013	750,001	67,554	817,555
Interest charged during the period (Note 6)	59,502	–	59,502
Interest paid during the period	(29,983)	–	(29,983)
Changes in fair value during the period	–	20,985	20,985
As at 30 June 2014	779,520	88,539	868,059

No conversion or redemption of the Convertible Bonds has occurred up to 30 June 2014.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

21. MEDIUM-TERM DEBENTURES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Medium-term debentures	7,325,719	6,189,548

The Company's subsidiary, Shandong Hongqiao, applied to NAFMII for issuing medium-term debentures of RMB3,000,000,000 to independent third party debenture holders.

On 7 December 2012, Shandong Hongqiao issued the first tranche of the medium-term debentures, of a principal amount of RMB1,500,000,000 with a maturity date of 7 December 2015. The debentures bear fixed interest at 5.80% per annum. Interest is payable annually in arrears.

On 25 January 2013, Shandong Hongqiao issued the second tranche of the medium-term debentures, of a principal amount of RMB1,500,000,000 with a maturity date of 25 January 2018. The debentures bear fixed interest at 6.30% per annum. Interest is payable annually in arrears.

The Company's subsidiary, Alumina & Power, applied to NAFMII for issuing medium-term debentures of RMB3,000,000,000 to independent third party debenture holders.

On 10 April 2013, Alumina & Power issued the first tranche of the medium-term debentures, of a principal amount of RMB1,500,000,000 with a maturity date of 10 April 2018. The debentures bear fixed interest at 5.80% per annum. Interest is payable annually in arrears.

On 9 May 2013, Alumina & Power issued the second tranche of the medium-term debentures, of a principal amount of RMB1,500,000,000 with a maturity date of 9 May 2018. The debentures bear fixed interest at 6.00% per annum. Interest is payable annually in arrears.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

21. MEDIUM-TERM DEBENTURES (CONTINUED)

Pursuant to the approval [2013] No.1654 issued by National Development and Reform Commission dated 27 August 2013, National Development and Reform Commission granted an approval to Shandong Hongqiao to issue medium-term debentures with a maximum limit of RMB2,300,000,000 up to 27 August 2014.

On 3 March 2014, Shandong Hongqiao issued the first tranche of the medium-term debentures, of a principal amount of RMB1,200,000,000 with a maturity date of 2 March 2021. The debentures bear fixed interest at 8.69% per annum. Interest is payable annually in arrears. The debentures are listed on the Shanghai Stock Exchange.

22. GUARANTEED NOTES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Guaranteed notes	2,420,657	–

On 26 June 2014, the Company issued 7.625% guaranteed notes with the aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,461,120,000 (the “2017 Guaranteed Notes”) which are guaranteed by certain oversea subsidiaries of the Group. The 2017 Guaranteed Notes matures on 26 June 2017. The 2017 Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2017 Guaranteed Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price set forth below.

Period	Redemption price
Prior to 26 June 2017	100% of the principal amount, plus the Applicable Premium as of, plus accrued and unpaid interest (notes i & ii)
Prior to 26 June 2017	107.625% of the principal amount, plus accrued and unpaid interest (note iii)
Note iv	101% of the principal amount, plus accrued and unpaid interest
Note v	100% of the principal amount, plus accrued and unpaid interest

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

22. GUARANTEED NOTES (CONTINUED)

Notes:

- (i) Applicable Premium means with respect to a note at any redemption date, the greater of (i) 1.00% of the principal amount and (ii) the excess of (A) the present value at such redemption date of the principal amount of the 2017 Guaranteed Notes on 26 June 2017, plus all required remaining scheduled interest payments due on the 2017 Guaranteed Notes through 26 June 2017 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate as disclosed in the offering circular plus 100 basis points, over (B) the principal amount on redemption date.
- (ii) At any time prior to 26 June 2017, the Company may at its option redeem 2017 Guaranteed Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount plus the Applicable Premium as of, plus accrued and unpaid interest, if any, to the redemption date.
- (iii) At any time prior to 26 June 2017, the Company may redeem up to 35% of 2017 Guaranteed Notes, at a redemption price of 107.625% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date in each case, using the net cash proceeds from sales of certain equity offerings.
- (iv) Upon the occurrence of a change of control, the Company must make an offer to repurchase all 2017 Guaranteed Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.
- (v) In the event the Group are required to pay additional amounts as a result of certain changes in tax law, 2017 Guaranteed Notes may be redeemed, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest.

The carrying amount of the 2017 Guaranteed Notes on date of issuance is stated net of issue expenses totaling US\$7,000,000 (equivalent to approximately RMB43,070,000) and the effective interest rate of the 2017 Guaranteed Notes is 8.30% per annum.

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting period.

23. PLEDGE OF ASSETS

At the end of each reporting period, certain of the Group's assets were pledged to secure other borrowings and banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of each reporting period is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Restricted bank deposits	1,516,273	1,670,576
Bills receivable	300,000	304,474
Land use rights	30,970	31,319
Property, plant and equipment	364,920	379,496
	2,212,163	2,385,865

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

24. CAPITAL COMMITMENTS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided	8,793,612	3,346,679
– authorised but not contracted for	7,659,521	14,571,942
	16,453,133	17,918,621
Capital expenditure in respect of acquisition of a company		
– authorised but not contracted for	670,040	–

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input (s)
	At 30 June 2014	At 31 December 2013			
1) Foreign currency forward contracts classified as held-for-trading financial liabilities	N/A	Liabilities – RMB4,407,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
2) Interest rate swaps classified as held-for-trading financial liabilities	N/A	Liabilities – RMB871,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
3) Convertible bonds-derivative component classified as financial liabilities at FVTPL	Liabilities – RMB88,539,000	Liabilities – RMB67,554,000	Level 3	The fair value of the derivative component is derived by deducting the fair value of the liability component from the fair value of Convertible Bonds as a whole which is calculated using Binomial Option Pricing Model.	Discount rate was based on risk free rate and credit spread. (Note) Volatilities were determined based on the historical price volatilities of the Company. (Note)

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Note: An increase in the volatilities would result in a significant increase in the fair value measurement of the convertible bonds – derivative component, and vice versa. A 10% increase in the volatilities holding all other variables constant would increase the carrying amount of the convertible bonds – derivative component by RMB14,453,000. A 10% decrease in the volatilities holding all other variables constant would decrease the carrying amount of the convertible bonds – derivative component by RMB14,455,000.

An increase in the discount rate would result in a minor decrease in the fair value measurement of the convertible bonds – liability component, and vice versa. A 10% increase in the discount rate holding all other variables constant would decrease the carrying amount of the convertible bonds – liability component by RMB1,602,000. A 10% decrease in the discount rate holding all other variables constant would increase the carrying amount of the convertible bonds – liability component by RMB1,606,000.

There is no transfer between level 2 and level 3 during the current and prior period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values.

	30 June 2014		31 December 2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Guaranteed notes (note i)	2,420,657	2,461,120	–	–
Medium-term debentures – listed (note i)	1,221,846	1,236,240	–	–
Medium-term debentures – unlisted (note ii)	6,103,873	6,020,918	6,189,548	5,756,383
Convertible bonds				
– liability component (notes ii)	779,520	947,441	750,001	946,049

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (continued)

Notes:

- (i) The fair value of guaranteed notes and medium-term debentures – listed are included in Level 1 of the fair value hierarchy. The fair value of the financial liabilities included in Level 1 category above has been determined using the quoted bid prices in an active market.
- (ii) The fair value of medium-term debentures – unlisted and convertible bonds – liability component are included in the level 3 of the fair value hierarchy. The fair values of the financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis, with the most significant inputs being the discounted rate that reflects the credit risk of counter parties.

(iii) Reconciliation of Level 3 fair value measurements

	Convertible bonds derivative component
	RMB'000
At 1 January 2013	231,150
Changes in fair value during the year	(163,596)
At 31 December 2013	67,554
Changes in fair value during the period	20,985
At 30 June 2014	88,539

Changes in fair value during the period amounting to RMB20,985,000 (2013: RMB163,596,000) relates to derivative component of Convertible Bonds issued by the Group and remained outstanding at the end of the reporting period.

The board of directors of the Company has set up a valuation committee, which is headed by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value measurements and valuation process

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of director of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

26. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
山東魏橋創業集團有限公司 ("Chuangye Group") (note i)	note ii
濱州魏橋鋁業科技有限公司 ("Aluminum Technology") (note i)	Controlled by Chuangye Group

Notes:

- (i) The English names of the above company are for reference only and have not been registered.
- (ii) Mr. Zhang Shiping, the director and the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group.

(b) The Group has entered into the following significant transactions with its related parties during the reporting period:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Purchases of carbon anode blocks – Aluminum Technology	166,320	133,787
Sales of slag of carbon anode blocks – Aluminum Technology	13,930	15,939

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2014

26. RELATED PARTY TRANSACTIONS

(c) Compensation of key management personnel

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Short term employee benefit	3,154	2,938
Retirement benefits scheme contributions	27	19
	3,181	2,957

(d) Guarantees and security

At the end of each reporting period, details of amounts of bank borrowings of the Group guaranteed by a related party were as follows:

	At 30 June	At 31 December
	2014 RMB'000	2013 RMB'000
Chuangye Group	638,800	488,800

(e) Balances with related party

	At 30 June	At 31 December
	2014 RMB'000	2013 RMB'000
Trade payable		
– Aluminium Technology	10,314	6,871