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**China Hongqiao Group Limited**

**中國宏橋集團有限公司**

（根據開曼群島法例成立的有限公司）

（股份代號：1378）

**海外監管公告**

本海外監管公告乃根據香港聯合交易所有限公司（「聯交所」）證券上市規則（「上市規則」）第13.10B條而刊發。

謹此提述中國宏橋集團有限公司（「本公司」）日期為二零一八年四月十三日及二零一八年四月十七日內容有關票據發行的公告（「該等公告」）。除另有定義外，本公告所用詞彙與該等公告所界定者具有相同涵義。

本公司已向新加坡交易所提交隨附與票據發行有關的發售通函（「發售通函」），該通函已於二零一八年四月二十七日在新加坡交易所網站刊載。

於聯交所網站登載發售通函僅旨在向香港投資者同步發佈資訊及遵守上市規則第13.10B條之規定，並無任何其他目的。

發售通函並不構成於任何司法權區向公眾出售任何證券的章程、通知、通函、宣傳冊或發售廣告，亦非邀請公眾提呈認購或購買任何證券，亦非旨在邀請公眾提呈認購或購買任何證券。

發售通函不得視作認購或購買本公司任何證券的誘因，且概無計劃有關誘因。不應根據發售通函所載的資料作出投資決定。

承董事會命  
中國宏橋集團有限公司  
主席  
張士平

香港，二零一八年四月二十七日

於本公告刊發日期，本公司董事會包括十名董事，即執行董事張士平先生、鄭淑良女士、張波先生及張瑞蓮女士，非執行董事楊叢森先生及張敬雷先生，以及獨立非執行董事陳英海先生、邢建先生、韓本文先生及董新義先生。

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS OR ADDRESSEES OUTSIDE OF THE UNITED STATES.**

**IMPORTANT: You must read the following before continuing.** The following applies to this offering circular (the “Offering Circular”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

**Confirmation and your representation:** In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be persons outside the United States. By accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are persons outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such Offering Circular by electronic transmission.

Within the United Kingdom, the Offering Circular is being directed solely at and may only be communicated to persons who: (i) fall within Article 19(5) or Article 49(2)(a)-(d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (ii) are outside the United Kingdom, or (iii) are persons to whom an invitation or inducement to engage in an investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons collectively being referred to as “Relevant Persons”). The Offering Circular is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Offering Circular relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the Offering Circular or any of its contents.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS –The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (“Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Offering Circular to any other person.

The materials relating to the offering contemplated under the Offering Circular do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of China CITIC Bank International Limited, Standard Chartered Bank, Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Singapore Branch, Société Générale, Barclays Bank PLC and CMB International Capital Limited as Joint Bookrunners and Joint Lead Managers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



**CHINA HONGQIAO GROUP LIMITED**

**中國宏橋集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

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**US\$450,000,000 6.85% Senior Notes due 2019**

**Issue Price: 100%**

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Our US\$450,000,000 6.85% Senior Notes due 2019 (the “Notes”) will bear interest from April 24, 2018 at 6.85% per annum payable semiannually in arrear on October 24, 2018 and on the maturity date. Unless previously repurchased or redeemed, the Notes will mature on April 22, 2019.

The Notes are unsecured, senior obligations of China Hongqiao Group Limited (the “Company”), guaranteed by certain of our existing subsidiaries organized outside of the PRC (the “Subsidiary Guarantors”). We refer to the guarantees by the Subsidiary Guarantors as “Subsidiary Guarantees.”

Upon the occurrence of a Change of Control (as defined herein), we must make an offer to repurchase all 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.

The Notes will be (1) general obligations of the Company, (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) *pari passu* in right of payment against the Company with the November 2014 Notes, the November 2017 CB and all other unsecured, unsubordinated Indebtedness (as defined herein) of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (4) guaranteed by the Subsidiary Guarantors on a senior basis, subject to certain limitations described under the caption “Description of the Notes – The Subsidiary Guarantees” and “Risk Factors – Risks Relating to the Subsidiary Guarantees;” (5) effectively subordinated to the secured obligations of the Company and the Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor and (6) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees. See “Risk Factors – Risks Relating to the Subsidiary Guarantees.”

*For a more detailed description of the Notes, see the section entitled “Description of the Notes” beginning on page 108.*

**Investing in the Notes involves risks. See the section entitled “Risk Factors” beginning on page 11.**

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes or the Subsidiary Guarantees.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold by the Initial Purchasers only outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions” beginning on page 173.

It is expected that the delivery of the Notes will be made on or about April 24, 2018 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

***Sole Global Coordinator***

**China CITIC Bank International**

***Joint Bookrunners and Joint Lead Managers***

<b>China CITIC Bank International</b>	<b>Standard Chartered Bank</b>	<b>Crédit Agricole CIB</b>	<b>ING</b>	<b>Société Générale Corporate &amp; Investment Banking</b>	<b>Barclays</b>	<b>CMB International</b>
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***Lead Manager (in relation to PRC matters)***

**Bank of Chongqing Co., Ltd.**

Offering Circular dated April 17, 2018.

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## NOTICE TO INVESTORS

This offering circular does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. In addition, there may be legal restrictions on the distribution of this offering circular and the offering of the Notes in certain jurisdictions. If you come into possession of this offering circular, China CITIC Bank International Limited, Standard Chartered Bank, Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Singapore Branch, Société Générale, Barclays Bank PLC and CMB International Capital Limited (collectively, the “Initial Purchasers,” and each, an “Initial Purchaser”) and we require you inform yourself about any such restrictions. See “Plan of Distribution” and “Transfer Restrictions” below. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering circular or that the information contained in this offering circular is correct as of any time after that date.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**This offering circular is not a prospectus for the purposes of the Prospectus Directive (as defined below). The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.**

IN CONNECTION WITH THIS OFFERING, EACH INITIAL PURCHASER, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. HOWEVER, EACH INITIAL PURCHASER, OR ANYONE ACTING FOR IT, IS NOT OBLIGATED TO DO THIS. IF THESE ACTIONS ARE COMMENCED, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

We, having made all reasonable inquiries, confirm that: (i) this offering circular contains all information with respect to us, our subsidiaries and affiliates referred to in this offering circular and the Notes and the Subsidiary Guarantees that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering circular relating to us and our subsidiaries and our affiliates are in

every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering circular with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the Notes and the Subsidiary Guarantees, the omission of which would, in the context of the issue and offering of the Notes, make this offering circular, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This offering circular is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering circular before making a decision whether to purchase the Notes. You must not use this offering circular for any other purpose, or disclose any information in this offering circular to any other person.

We have prepared this offering circular, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by the Initial Purchasers (as defined in the section entitled “Plan of Distribution”) or The Bank of New York Mellon, London Branch (the “Trustee” and the “Paying Agent”) or The Bank of New York Mellon SA/NV, Luxembourg Branch (the “Registrar” and the “Transfer Agent” and together with the Paying Agent, the “Agents”) or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering circular is, or should be relied upon as, a promise or representation, whether as to the past or the future. The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors, to the fullest extent permitted by law, assume no responsibility for the accuracy or completeness of any such information or for any statement made or purported to be made by the Initial Purchasers or on our behalf in connection with the Company or the Subsidiary Guarantors or the issue and offering of the Notes. The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors have not independently verified the information contained herein (financial, legal or otherwise). The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors accordingly, to the fullest extent permitted by law, disclaim all and any liability whether arising in contract or tort or otherwise which they might otherwise have in respect of this offering circular or any such statement.

**The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering circular. Any representation to the contrary is a criminal offense in the United States.**

Each person receiving this offering circular acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, the Trustee or the Agents or any person affiliated with the Initial Purchasers, the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of us and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, the Trustee or the Agents.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes, including the Subsidiary Guarantees, in any jurisdiction except where an offer or sale is permitted. The distribution of this offering circular and the offering of the Notes, including the Subsidiary Guarantees, may in certain jurisdictions be restricted by law. Persons into whose possession this offering circular comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes, including the Subsidiary Guarantees, and distribution of this offering circular, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

This offering circular summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering circular. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for or purchase the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of purchase of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.



## ENFORCEABILITY OF CIVIL LIABILITIES

We are an exempted company incorporated under the laws of the Cayman Islands with limited liability. As all of our business is conducted, and substantially all of our assets are located, in the PRC (as defined herein), our operations are generally affected by and subject to the PRC legal system and PRC laws and regulations. In addition, most of our directors and senior officers reside in the PRC, and the assets of our directors and officers may also be located in the PRC. As a result, it may be difficult for investors to effect service of process upon us or such persons, or to enforce against us or such persons judgments obtained in courts or arbitral tribunals outside the PRC or the Cayman Islands, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory of the United States.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Where adequate law exists in China, the enforcement of existing laws or contracts based on existing law may be nevertheless uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretations, and prior court decisions may be referenced but carry limited weight as precedents.

We have been advised by our PRC legal advisors, AllBright Law Offices (Beijing), that there is uncertainty as to whether the courts of the PRC would:

- (1) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the U.S. federal or state securities laws, and China does not have treaties for the reciprocal enforcement of judgments with the United States; or
- (2) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated upon the U.S. federal or state securities laws.

We have been advised by our Cayman Islands legal advisors, Conyers Dill & Pearman (Cayman) Limited, that there is uncertainty as to whether the courts of the Cayman Islands would:

- (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- (2) in original actions brought in the Cayman Islands, liabilities against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

We have been advised by Conyers Dill & Pearman (Cayman) Limited that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We have been advised by our British Virgin Islands legal advisors, Conyers Dill & Pearman, that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We have been advised by our Hong Kong legal advisors, Luk & Partners In Association with Morgan, Lewis & Bockius, that Hong Kong has no statutory or other arrangement for the reciprocal enforcement of judgments with the United States. Subject to the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Cap 46 of the Laws of Hong Kong) (the “FJO”), a judgment given by the courts of New York could form the basis of a claim in the Hong Kong courts in respect of the judgment debt for which an application for summary judgment could be made.

- (1) recognition and/or enforcement of the judgment is not restricted by operation of the provisions of the FJO;
- (2) the judgment was not obtained by fraud, misrepresentation or mistake nor obtained in proceedings which contravene the rules of natural justice;
- (3) enforcement of the judgment would not be contrary to public policy in Hong Kong;
- (4) the relevant court in New York had jurisdiction in accordance with the Hong Kong rules on the conflict of laws;
- (5) the judgment is for a definite sum of money which is not payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty; and
- (6) the judgment is final and conclusive between the parties, but if it is capable of being appealed or an appeal is pending, the proceedings in Hong Kong are likely to be stayed by the courts of Hong Kong pending any such appeal being heard.

## **CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION**

In this offering circular, all references to “we,” “us,” “our Company” and “Group” refer to China Hongqiao Group Limited and, as the context requires, its subsidiaries; all references to “our IPO” mean our initial public offering of our Shares listed on The Hong Kong Stock Exchange in March 2011; all references to “US\$,” “USD” and “U.S. dollars” are to United States dollars; all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China; all references to “PRC” and “China” are to the People’s Republic of China, excluding the Hong Kong Special Administration Region of the PRC, the Macau Special Administration Region of the PRC and Taiwan.

Solely for your convenience, this offering circular contains translations of Renminbi amounts into U.S. dollars at specified rates. Unless we indicate otherwise, translations of Renminbi into U.S. dollars have been made at the rate of RMB6.5063 to US\$1.00 (the noon buying rate in New York City on December 29, 2017 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rates is set forth in “Exchange Rate Information” in this offering circular. All such translations in this offering circular are provided solely for your convenience and we make no representation that Renminbi or U.S. dollar amounts referred to herein have been, could have been or could be converted into U.S. dollar or Renminbi, or vice versa, at such rate or at any other rate on such data or on any other date or at all. Certain financial amounts presented in this offering circular may not correspond to the financial statements included elsewhere in this offering circular or may not add up due to rounding. For further information relating to the exchange rates, see “Exchange Rate Information” in this offering circular.

Our financial information is prepared and presented in accordance with International Financial Reporting Standards (“IFRS”), which differ in certain respects from generally accepted accounting principals (“GAAP”) in certain countries, including the United States, which might be material to the financial information herein. We have made no attempt to quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and the financial information. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and GAAP and how those differences might affect the financial information herein.

The market data, certain industry forecasts and statistics set forth in this offering circular relating to the global and PRC markets and the aluminum industry were taken or derived from various government and private publications. None of us, the Initial Purchasers, the Trustee and the Agents make any representation as to and to the fullest extent permitted by law, assume any responsibility for the accuracy and reliability of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

## FORWARD-LOOKING STATEMENTS

This offering circular includes certain statements that are, or may be deemed to be, “forward-looking statements.” All statements other than statements of historical facts contained in this offering circular, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to successfully implement our business plan and strategies;
- PRC government policies and the regulatory framework for the PRC aluminum industry;
- future developments and other trends in the global and the PRC aluminum industry;
- cost, fluctuations in the price and availability of materials required for our Group’s production of aluminum products;
- changes to our expansion plans and estimated capital expenditures;
- our operations and business prospects;
- various business opportunities we may pursue;
- our financial condition and performance;
- the actions and developments of our competitors;
- our dividend policy;
- general political and economic conditions, including those related to the PRC;
- exchange rate fluctuations and developments in the legal system, in each case pertaining to the PRC and the industry and markets in which we operate;
- regulations and restrictions, including tariffs and environmental regulations;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- other factors discussed in the sections headed “Risk Factors” and “Business.”

Forward-looking statements may and often do differ materially from actual results. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this offering circular and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to our Group’s business. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or

otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering circular might not occur. All forward-looking statements contained in this offering circular are qualified by reference to the cautionary statements set out in this section.

## DEFINITIONS

*In this offering circular, unless the context otherwise requires, the following expressions shall have the following meanings.*

“2016 Negative Report” . . . . .	The negative report against our Company published by a website ( <a href="http://hongqiaoexposed.com">http://hongqiaoexposed.com</a> ) with unknown origins in November 2016.
“2017 Negative Reports” . . . . .	The First 2017 Negative Report and the subsequent negative reports against our Company published by Emerson Analytics Co. Ltd. dated October 30, 2017 and November 14, 2017.
“Aluminum & Power” . . . . .	山東魏橋鋁電有限公司 (Shandong Weiqiao Aluminum and Power Co., Ltd.), a limited liability company incorporated under the laws of the PRC on December 25, 2002 and an indirect wholly-owned subsidiary of our Company.
“Antaike” . . . . .	北京安泰科信息開發有限公司 (Beijing Antaike Information Development Co., Ltd.), an independent specialist market research company engaged by the Company.
“Audit Findings” . . . . .	The audit findings set out in the letter sent from Ernst & Young on February 28, 2017 after Ernst & Young carried out additional audit procedures for the year ended December 31, 2016.
“Board of Directors” or “Board” . . . . .	Our board of Directors.
“BVI” . . . . .	The British Virgin Islands.
“CAGR” . . . . .	Acronym for compound annual growth rate.
“Chuangye Group” . . . . .	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established under the laws of the PRC on April 14, 1998, the name of which was changed in 2003 from Shandong Weiqiao Textile Group Company Limited (山東魏橋紡織集團有限公司), a limited liability company converted from its predecessor, Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠). As of December 31, 2017, Mr. Zhang directly and indirectly held an approximately 31.59% equity interest in Chuangye Group.
“Companies Law” . . . . .	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“Controlling Shareholders”	Has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang, Shiping Prosperity Private Trust Company, and Hongqiao Holdings who control the exercise of approximately 67.99% of the voting rights in a general meeting of our Company as of the date of this offering circular.
“Director(s)” . . . . .	The director(s) of our Company.

“EIT Law” . . . . .	The PRC Enterprise Income Tax Law passed by the National People’s Congress of the PRC on March 16, 2007, which took effect on January 1, 2008, as amended, supplemented and otherwise modified from time to time.
“First 2017 Negative Report” . . . . .	The negative reports against our Company published by Emerson Analytics Co. Ltd. dated February 28, 2017.
“Gaoxin” . . . . .	濱州高新鋁電股份有限公司 (Binzhou Gaoxin Aluminum & Power Joint Stock Co., Ltd.), formerly known as 鄒平高新熱電有限公司 (Zouping Gaoxin Power Co., Ltd.), a joint stock company incorporated under the laws of the PRC on January 24, 2007, which is an independent third party.
“Hong Kong” or “HK” . .	The Hong Kong Special Administrative Region of the PRC.
“Hong Kong Stock Exchange” . . . . .	The Stock Exchange of Hong Kong Limited
“Hongqiao Holdings” . . .	China Hongqiao Holdings Limited (中國宏橋控股有限公司), a company incorporated in the BVI with limited liability on February 5, 2010 and one of the Controlling Shareholders of our Company.
“Hongqiao Hong Kong” .	Hongqiao Investment (Hong Kong) Limited (宏橋投資(香港)有限公司), a company incorporated in Hong Kong with limited liability on February 18, 2010 and an indirect wholly-owned subsidiary of our Company.
“Hongqiao Investment” . .	China Hongqiao Investment Limited (中國宏橋投資有限公司), a company incorporated in the BVI with limited liability on February 5, 2010 and a direct wholly-owned subsidiary.
“Hongqiao Trading” . . . .	Hongqiao International Trading Limited (宏橋國際貿易有限公司), a company incorporated in Hong Kong with limited liability on April 11, 2012 and an indirect wholly-owned subsidiary of our Company.
“Huimin Huihong” . . . . .	惠民縣匯宏新材料有限公司 (Huimin County Huihong New Materials Co., Ltd.), a limited liability company established under the laws of the PRC on December 6, 2011 in the PRC and an indirect wholly-owned subsidiary of our Company.
“Indonesia” . . . . .	the Republic of Indonesia.
“Indonesian Alumina Joint Venture Company” . . . .	PT. Well Harvest Winning Alumina Refinery, a limited liability company established and existing under the laws of the Republic of Indonesia and domiciled in Central Jakarta pursuant to a joint venture agreement entered into on December 27, 2012 by the Company, Winning Investment, PT. Cita and PT. Danpac with a total planned investment of not more than US\$1.5 billion and in which the Company holds a 61% interest directly and indirectly.
“Listing Rules” . . . . .	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).
“Main Board” . . . . .	The Main Board of the Hong Kong Stock Exchange.

“Mr. Zhang” . . . . .	張士平, Mr. Zhang Shiping, an executive Director of our Company and one of our Controlling Shareholders. Mr. Zhang is the husband of Ms. Zheng, the father of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the father-in-law of Mr. Yang Congsen.
“Ms. Zheng” . . . . .	鄭淑良, Ms. Zheng Shuliang, the wife of Mr. Zhang, the mother of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the mother-in-law of Mr. Yang Congsen.
“NDRC” . . . . .	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC).
“Negative Reports” . . . . .	2016 Negative Report and 2017 Negative Reports.
“November 2014 Notes” . . . . .	The 6.875% senior notes the Company issued on November 3, 2014, in the aggregate principal amount of US\$300 million, which will mature on May 3, 2018.
“November 2017 CB” . . . . .	The US\$320,000,000 5.0% convertible bonds due 2022 issued by the Company on November 28, 2017.
“People’s Congress” . . . . .	The PRC’s legislative apparatus, including the National People’s Congress of the PRC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them.
“PRC government” or “State” . . . . .	The government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities).
“PT. Cita” . . . . .	PT. Cita Mineral Investindo Tbk., a company duly organized and existing under the laws of Indonesia.
“PT. Danpac” . . . . .	PT. Danpac Resources Kalbar, a company duly organized and existing under the laws of Indonesia.
“PT. Well Harvest Winning Alumina Refinery” . . . . .	PT. Well Harvest Winning Alumina Refinery, a limited liability company established and existing under the laws of the Republic of Indonesia and domiciled in Central Jakarta.
“SAFE” . . . . .	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC).
“SFO” . . . . .	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
“Shandong Hongqiao” . . . . .	山東宏橋新型材料有限公司 (Shandong Hongqiao New Material Co., Ltd., previously known as Shandong Weiqiao Dyeing Company Limited (山東位橋染織有限公司)), a limited liability company established in the PRC on July 27, 1994 and an indirect wholly-owned subsidiary of our Company.



“Share(s)” . . . . .	Ordinary share(s) with a nominal value of US\$0.01 each in the share capital of our Company. “Shareholder(s)” Holder(s) of our Shares.
“State Council” . . . . .	中華人民共和國國務院 (State Council of the PRC).
“United States” or “U.S.”	The United States of America, including the District of Columbia, its territories and possessions.
“U.S. Securities Act” . . .	The U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
“VAT” . . . . .	Value-added tax; all amounts are exclusive of VAT in this offering circular except as indicated otherwise.
“Winning Investment” . . .	Winning Investment (HK) Company Limited, a company duly organized and existing under the laws of Hong Kong.
“Zhengtong” . . . . .	濱州市政通新型鋁材有限公司 (Binzhou Zhengtong New Aluminum Profiles Co., Ltd.), a limited liability company, which was established in the PRC on May 20, 2008 and is an indirect wholly-owned subsidiary of our Company.
“%” . . . . .	Per cent.

## GLOSSARY

*This glossary contains explanations of certain technical terms and abbreviations used in this offering circular that are in connection with our Group and its business. The terms and their assigned meanings may not, however, correspond to standard industry meaning or usage of those terms, as the terms may be.*

“alloy” . . . . .	A composite metal formed by fusing two or more metals and, occasionally, other materials.
“alumina (氧化鋁)” . . . .	Aluminum oxide, the immediate raw material of producing aluminum.
“aluminum alloy (鋁合金)” . . . . .	One type of alloy, the major component of which is aluminum.
“aluminum fabrication products (鋁型材產品)”	Aluminum products obtained through further processing of primary aluminum for application in end-use market.
“anode” . . . . .	A positive electrode which attracts chemicals carrying negative electricity.
“average utilization hours”	For a specified period, the amount of electricity produced in such period (in MWh) divided by the average installed capacity in such period.
“coal fly ash” . . . . .	the lightweight particles captured in the exhaust gas.
“electrolytic aluminum (電解鋁)” . . . . .	Pure aluminum produced from alumina through an electrolytic reduction process.
“ISO” . . . . .	International Organization for Standardization.
“kA” . . . . .	Kiloamperes, equal to 1,000 amperes, a unit of electric current flow.
“kWh” . . . . .	Kilowatt hours, a unit for measuring the quantity of electrical power produced or consumed, meaning one kilowatt of power for one hour.
“MW” . . . . .	Megawatt, a unit for measuring the rate at which electrical power is produced or consumed, equivalent to one thousand kilowatts.
“smelting (熔煉)” . . . . .	The electrolytic reduction process required to produce molten aluminum from alumina.
“sq.m.” . . . . .	Square meter.
“ton” . . . . .	The metric ton, a unit of weight, with one metric ton equal to 1,000 kilograms or 2,204.6 pounds.
“utilization rate” . . . . .	Utilization rate is calculated by dividing the production volume for the relevant year by the weighted average annual production capacity as of the end of the relevant year. With respect to production capacity, a 100% utilization rate assumes a constant electric current efficiency and a constant quality of voltage. If the electric current efficiency or the quality of voltage improves, the actual utilization rate may exceed 100%.

## SUMMARY

*This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering circular, including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.*

### Overview

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. As of December 31, 2017, we were one of the largest aluminum manufacturers in China in terms of production capacity according to Antaika. We have vertically integrated operations that cover the entire aluminum industry value chain consisting of production facilities for alumina, molten aluminum alloy and aluminum alloy ingots, aluminum fabrication production facilities, as well as self-supporting power generation facilities.

We believe that we enjoy sustainable profitability because of our vertically integrated business model, our cost advantages and high operational efficiency and centralized procurement of raw materials and local electricity supply. We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes raw material suppliers and local down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. All of our aluminum manufacturing bases are in close geographic proximity to each other and are connected by our in-house power supply grid. We are connected to other major production bases of downstream aluminum fabrication products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province, through developed transportation networks.

We currently have eight manufacturing bases in Zouping, Zhanhua District, Beihai New District, Weiqiao, Binzhou, Boxing, Yangxin and Huimin, respectively. Our annual production capacity of aluminum products was approximately 7.436 million tons as of December 31, 2016 with utilization rates of approximately 96.5% for the year then ended. In the second half of 2017, as result of an action plan implemented by relevant government authorities to reform the supply-side aluminum industry and to limit coal consumption, we decreased our annual production capacity by shutting down certain aluminum production facilities and ancillary facilities with an annual aluminum production capacity of 2.68 million tons. As of December 31, 2017, we had an annual production capacity of approximately 6.46 million tons (inclusive of newly installed production capacity of approximately 1.70 million tons), and our utilization rate for 2017 was approximately 94.9%.

Our aluminum products consist of molten aluminum alloy, aluminum alloy ingots, and aluminum fabrication products. Our aluminum products are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction.

We have achieved significant growth in our sales volume of aluminum products since our inception. We sold approximately 5.7 million tons and 7.5 million tons of aluminum products for the years ended December 31, 2016 and 2017, and generated revenue of approximately RMB61,350.0 million and RMB93,138.0 million (US\$14,315.0 million) for the respective periods from sales of aluminum products. During the same periods, we achieved net profit of approximately RMB6,815.7 million and RMB5,306.8 million (US\$815.6 million), respectively.

## **Our Competitive Strengths**

We believe that our success and future prospects are supported by a combination of the following key competitive strengths:

- Established market position in the Chinese aluminum industry with solid growth profile and sustainable and resilient profitability;
- Vertically integrated business model providing significant cost advantages;
- Strategic location benefitting from a symbiotic relationship within the end-to-end aluminum industry cluster;
- Efficient and advanced production facilities;
- High Profile Professional Shareholders;
- Diversified financing channels with prudent financial management; and
- Experienced management team with established track record.

## **Our Strategies**

We seek to further strengthen our established market position in the aluminum industry in China. We aim to achieve sustainable growth of our businesses and remain competitive. To achieve this, we intend to implement the following strategies:

- Further enhance vertical integration to capture additional cost advantages and further strengthen our competitiveness in the market;
- Enhance product research and development capacities; and
- Increase our marketing and sale efforts;

## **Recent Developments**

### ***Payment of Final Dividend and Special Dividend for 2016***

During our annual general meeting on December 8, 2017, our shareholders approved a payment of a final dividend of HK\$27.0 cents per share and a special dividend of HK\$20.0 cents for 2016. Such dividends was paid on February 9, 2018 to the shareholders whose names appear on the register of members of our Company on February 6, 2018.

### ***Private Placement and Subscription of Shares***

On January 15, 2018, we and Hongqiao Holdings entered into a placing and subscription agreement with UBS AG Hong Kong Branch, CMB International Capital Limited and CLSA Limited, as the placing agents, pursuant to which the placing agents agreed to place up to 650,000,000 existing ordinary shares of the Company owned by Hongqiao Holdings to independent placees and Hongqiao Holdings agreed to subscribe for and we agreed to allot and issue to Hongqiao Holdings, conditionally upon the successful placing of the existing shares, up to 650,000,000 new ordinary shares of the Company.

The placing and the subscription were completed on January 18 and January 23, 2018, respectively. An aggregate of 650,000,000 existing shares were placed at HK\$9.6 per share and an aggregate of 650,000,000 new shares were subscribed for at HK\$9.6 per share. The net proceeds from the subscription amounted to approximately HK\$6.2 billion, which were intended to be used by us for the

repayment of indebtedness and general corporate purposes. No individual placee became a substantial shareholder (as defined in the Listing Rules) immediately after completion of the placing and the subscription.

***Recent Material Term Loan Facility Agreement***

On April 9, 2018, we entered into a facility agreement with, among others, CBI as facility agent (the “CBI 2018 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$397.5 million (including a greenshoe option) to finance repayment of part of our existing debts and for general corporate purposes. See “Description of Other Material Indebtedness – Term Loan Facility Agreements – The CBI 2018 Facility” for further information.

***Proposed Final Dividend for 2017***

The Board of the Company proposed to a payment of final dividend of HK\$20 cents per share for the year ended December 31, 2017 which is subject to the approval of the shareholders of the Company in May 2018.

## THE OFFERING

*The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering circular. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”*

Issuer . . . . .	China Hongqiao Group Limited (the “Company”).
Notes offered . . . . .	US\$450,000,000 aggregate principal amount of 6.85% Senior Notes due 2019 (the “Notes”).
Offering Price . . . . .	100% of the principal amount of the Notes.
Maturity Date . . . . .	April 22, 2019.
Interest . . . . .	The Notes will bear interest from and including April 24, 2018 at the rate of 6.85% per annum, payable on October 24, 2018 and on the maturity date.
Interest Payment Dates . . . . .	October 24, 2018 and April 22, 2019.
Ranking of the Notes . . . . .	<p>The Notes will be:</p> <ul style="list-style-type: none"><li>• general obligations of the Company;</li><li>• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;</li><li>• <i>pari passu</i> in right of payment with the November 2014 Notes, the November 2017 CB and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);</li><li>• guaranteed by the Subsidiary Guarantors on a senior basis, subject to certain limitations described under the caption “Description of the Notes – The Subsidiary Guarantees” and “Risk Factors – Risks Relating to the Subsidiary Guarantees;”</li><li>• effectively subordinated to the secured obligations of the Company and the Subsidiary Guarantors secured by assets, to the extent of the value of the assets serving as security; and</li><li>• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.</li></ul>
Subsidiary Guarantees . . . . .	<p>Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under the Notes.</p> <p>A Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees – Release of the Subsidiary Guarantees.”</p>

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than the Restricted Subsidiaries organized under the laws of the PRC and the Indonesian Alumina Joint Venture Company and its subsidiaries.

The initial Subsidiary Guarantors are holding companies that do not have significant operations or assets.

None of the Restricted Subsidiaries organized under the laws of the PRC or Exempted Subsidiaries will provide a Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, the Company may designate any Offshore Subsidiary as a New Offshore Non-Guarantor Subsidiary, subject to certain limitations.

Each future Restricted Subsidiary, as defined under “Description of the Notes – Definitions” (other than Subsidiaries organized under the laws of the PRC, the Initial Offshore Non-Guarantor Subsidiaries and Exempted Subsidiaries (as defined in the “Description of the Notes”)), promptly upon becoming a Restricted Subsidiary, and each of its Exempted Subsidiaries, promptly after it ceases to be an Exempted Subsidiary, will execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes.

The Company may elect to have an Offshore Subsidiary (other than Hongqiao Investment, Hongqiao Hong Kong and Hongqiao Trading) not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary by designating it as an Offshore Non-Guarantor Subsidiary, if, among other things, the Consolidated Assets of all Restricted Subsidiaries organized under laws outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors do not account for more than 17.5% of the Total Assets of the Company (computed after excluding Consolidated Assets of all Exempted Subsidiaries) after giving effect to the designation of such Restricted Subsidiary as an Offshore Non-Guarantor Subsidiary.

Ranking of Subsidiary

Guarantees . . . . .

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- ranks *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- is effectively subordinated to the secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor; and

- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Use of Proceeds . . . . . The Company estimates the net proceeds of this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable in connection with this offering, will be approximately US\$445 million. The Company intends to apply the net proceeds from this offering for refinancing certain existing indebtedness with the remainder for general corporate purposes.

Pending application of the net proceeds of this offering, the Company intends to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes – Definitions”).

Repurchase of Notes Upon a Change of Control . . . . . Not later than 30 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

Redemption for Taxation Reason.. . . . . Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, 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 (including Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company or the Surviving Person or a Subsidiary Guarantor would become obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See “Description of the Notes – Redemption for Taxation Reasons.”

Covenants . . . . . The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:

- Incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of the Company or Subsidiary Guarantors;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;



- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes – Certain Covenants."

Transfer Restrictions . . . . The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."

Form, Denomination and Registration . . . . . The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will initially be represented by one or more permanent global notes registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Book-Entry Only . . . . . The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see "Description of the Notes."

Delivery of the Notes . . . . The Company expects to make delivery of the Notes, against payment in same-day funds, on or about April 24, 2018, which the Company expects will be the fifth business day following the date of this offering circular referred to as "T+5." You should note that initial trading of the Notes may be affected by the T+5 settlement. See "Plan of Distribution."

Trustee and Paying Agent. The Bank of New York Mellon, London Branch

Registrar and Transfer Agent . . . . . The Bank of New York Mellon SA/NV, Luxembourg Branch

Listing . . . . . Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for as long as the Notes are listed on the SGX-ST.

Governing Law . . . . . The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

ISIN/Common Code . . . .	<b>ISIN</b>	<b>Common Code</b>
	XS1756388069	175638806

Risk Factors . . . . . For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the following summary consolidated financial information from our audited consolidated financial statements for the years ended and as of December 31, 2016 and 2017, all of which are set forth elsewhere in this offering circular. These have been prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions. You should read the summary financial information below in conjunction with our consolidated financial statements. Historical results are not necessarily indicative of results that may be achieved in the future.

### Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2016	2017	2017
	RMB	RMB	US\$
	(in thousands)		
Revenue . . . . .	61,395,578	93,312,652	14,341,892
Cost of sales . . . . .	(47,199,245)	(78,428,941)	(12,054,308)
Gross profit . . . . .	14,196,333	14,883,711	2,287,584
Other income and gains . . . . .	1,019,222	3,945,187	606,364
Share of gains of associates . . . . .	129,012	371,989	57,174
Selling and distribution expenses . . . . .	(164,269)	(269,603)	(41,437)
Administrative expenses . . . . .	(2,080,550)	(2,062,327)	(316,974)
Other expenses . . . . .	(20,063)	(5,676,945)	(872,530)
Financial costs . . . . .	(3,345,896)	(4,080,113)	(627,102)
Changes in fair value of derivative . . . . .	25,987	(19,897)	(3,058)
Disposal of equity in subsidiaries . . . . .	4,561	–	–
Profit before taxation . . . . .	9,764,337	7,092,002	1,090,021
Income tax expense . . . . .	(2,948,667)	(1,785,170)	(274,376)
Profit for the year/period . . . . .	6,815,670	5,306,832	815,645
Profit for the year/period attributable to owners of the Company . . . . .	6,849,829	5,118,566	786,709
Non-controlling interests . . . . .	(34,159)	188,266	28,936
	<u>6,815,670</u>	<u>5,306,832</u>	<u>815,645</u>
Earnings per share			
Basic (RMB) . . . . .	<u>0.96</u>	<u>0.6970</u>	<u>0.107</u>
Diluted (RMB) . . . . .	<u>0.96</u>	<u>0.6966</u>	<u>0.107</u>
<b>Other financial data (unaudited)</b>			
EBITDA <sup>(1)</sup> . . . . .	19,434,503	23,392,943	3,595,429
EBITDA margin <sup>(2)</sup> . . . . .	31.7%	25.1%	25.1%
Total debt <sup>(3)</sup> . . . . .	75,298,309	70,550,606	10,843,430
Net debt <sup>(4)</sup> . . . . .	62,059,121	47,362,449	7,279,475
Total debt/EBITDA . . . . .	3.87	3.02	3.02
Net debt/EBITDA . . . . .	3.19	2.02	2.02
EBITDA/Finance cost . . . . .	5.54	5.69	5.69

Notes:

- (1) EBITDA refers to our profit and comprehensive income before for the year interest income/expense, finance costs, taxation, depreciation and amortization, foreign exchange loss and impairment losses recognised in respect of goodwill, property, plant and equipment. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See the section entitled "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit and other comprehensive income for the year. We use EBITDA in addition to profit and other comprehensive income for the year because profit and other comprehensive for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization, as well as non-operating and non-recurring items, such as finance costs, foreign exchange losses and impairment loss. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit and other comprehensive income for the year under IFRS to our definition of EBITDA for the periods indicated.

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
	<b>(in thousands)</b>		
Profit and other comprehensive income for the year. . . . .	6,815,670	5,306,832	815,645
Interest income. . . . .	(104,628)	(614,497)	(94,446)
Finance costs. . . . .	3,345,896	4,080,113	627,102
Taxation . . . . .	2,948,667	1,785,170	274,376
Depreciation and amortization. . . . .	5,649,944	7,867,029	1,209,140
Foreign exchange losses (gains). . . . .	778,954	(529,161)	(81,331)
Impairment loss recognised in respect of goodwill. . . . .	–	668,694	102,776
Impairment loss recognised in respect of property, plant and equipment. . . . .	–	4,828,763	742,167
EBITDA . . . . .	<u>19,434,503</u>	<u>23,392,943</u>	<u>3,595,429</u>

- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) Total debt is calculated as the total of short-term and long-term bank and other loans, short-term and medium-term debentures and convertible bonds (including liability and derivative components) and guaranteed notes.
- (4) Net debt is calculated as total debt minus restricted bank deposits and bank balances and cash.

## Statements of Financial Position

	As of December 31,		
	2016	2017	2017
	RMB	RMB	US\$
	(in thousands)		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment . . . . .	86,658,456	83,985,765	12,908,376
Intangible assets . . . . .	–	13,972	2,147
Prepaid lease payments . . . . .	3,066,503	3,806,787	585,092
Investment properties . . . . .	–	150,931	23,198
Deposit paid for acquisition of property, plant and equipment . . . . .	1,745,089	421,144	64,729
Deposit paid for acquisition of land . . . . .	443,390	14,968	2,301
Deferred tax assets . . . . .	557,322	1,784,856	274,327
Investment in associates . . . . .	944,796	1,325,328	203,699
Goodwill . . . . .	311,769	1,265,763	194,544
Other financial assets . . . . .	14,631	–	–
Available-for-sale investments . . . . .	–	6,000	922
	<u>93,741,956</u>	<u>92,775,514</u>	<u>14,259,335</u>
<b>CURRENT ASSETS</b>			
Prepaid lease payments . . . . .	56,152	85,902	13,203
Inventories . . . . .	17,143,324	15,585,330	2,395,421
Trade receivables . . . . .	363,314	2,211,734	339,937
Bills receivables . . . . .	9,721,942	11,912,479	1,830,914
Prepayments and other receivables . . . . .	8,242,544	12,359,225	1,899,578
Other financial assets . . . . .	13,047	57	9
Restricted bank deposits . . . . .	396,808	1,262,589	194,056
Cash and cash equivalents . . . . .	12,842,380	21,925,568	3,369,898
	<u>48,779,511</u>	<u>65,342,884</u>	<u>10,043,016</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables . . . . .	7,506,386	16,060,100	2,468,394
Other payables and accruals . . . . .	12,603,276	16,343,471	2,511,945
Bank borrowing – due within one year . . . . .	14,310,943	9,529,148	1,464,603
Other financial liabilities . . . . .	1,691	–	–
Income tax payable . . . . .	724,632	1,163,430	178,816
Short-term debentures and notes . . . . .	11,000,000	3,000,000	461,092
Medium-term debentures and bonds – due within one year . . . . .	731,664	7,196,185	1,106,033
Guaranteed notes . . . . .	2,768,436	1,957,399	300,847
Deferred income . . . . .	6,106	15,321	2,355
<b>TOTAL CURRENT LIABILITIES</b> . . . . .	<u>49,653,134</u>	<u>55,265,054</u>	<u>8,494,085</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b> . . . . .	<u>(873,623)</u>	<u>10,077,830</u>	<u>1,548,931</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> . . . . .	<u>92,868,333</u>	<u>102,853,344</u>	<u>15,808,266</u>
<b>CAPITAL AND RESERVES</b>			
Share capital . . . . .	474,057	526,966	80,993
Reserves . . . . .	44,324,255	50,706,364	7,793,425
Equity attributable to owners of the Company . . . . .	44,798,312	51,233,330	7,874,418
Non-controlling interests . . . . .	889,990	1,983,536	304,864
<b>TOTAL EQUITY</b> . . . . .	45,688,302	53,216,866	8,179,282
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year . . . . .	4,696,770	10,509,118	1,615,222
Liability component of convertible bonds . . . . .	–	1,095,225	168,333
Derivatives component of convertible bonds . . . . .	–	991,660	152,415
Deferred tax liabilities . . . . .	578,097	505,125	77,636
Medium-term debentures and bonds – due after one year . . . . .	39,720,060	36,271,871	5,574,882
Guaranteed notes . . . . .	2,070,436	–	–
Deferred income . . . . .	114,668	263,479	40,496
<b>TOTAL NON-CURRENT LIABILITIES</b> . . . . .	<u>47,180,031</u>	<u>49,636,478</u>	<u>7,628,984</u>

## RISK FACTORS

*You should carefully consider the risks described below and all other information contained in this offering circular before making an investment decision. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that almost all of our operations are conducted in China and are governed by a legal and regulatory environment that differs from those that prevail in other countries. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that event, we may not be able to satisfy our obligations under the Notes and you may lose part or all of your investment.*

*We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; (iv) risks relating to the Notes, and (v) risks relating to the Guarantees.*

### **Risks Relating to Our Business**

***Our business and results of operations are dependent on the market price of aluminum products, which is driven by factors beyond our control. Our profitability may be adversely affected by declines in market price of aluminum products.***

Our business is sensitive to fluctuations in the prices of aluminum products. Like most aluminum producers in China, we price our aluminum products primarily by reference to spot market prices. Any fall in such aluminum prices may have an adverse impact on our gross profit margin, and consequently our gross profit and net profit. The prices we receive are dependent upon spot market prices and upon numerous factors beyond our control. We attempt to pass pricing changes to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price changes or any limitation or delay in our passing through price changes could adversely affect our profit margins. Fluctuations in the market prices of aluminum products may affect our results of operations. Details of historical price movements of aluminum products are set out in the section headed “Industry Overview” in this offering circular.

The prices of aluminum products have historically fluctuated in response to market forces, such as global production, refining and smelting production, global and PRC economic conditions and industrial supply and demand. In recent years, there have been significant fluctuations in the prices of aluminum products. These fluctuations have been driven by changes in the end-use of aluminum products, as a result of fluctuations in investment in the construction, electrical, transport and consumer durables sectors. For 2016 and 2017, the average selling price of our own aluminum products per ton was approximately RMB10,787 and RMB12,367 (US\$1,901), respectively. There can be no assurance that the domestic demand for aluminum will continue to grow, that domestic aluminum will not experience excess supply, or that there will not be significant drops in aluminum prices in China. Any overcapacity in the PRC aluminum industry, whether caused by a decrease in demand or an increase in supply, would likely affect the average selling price of our products and consequently have a material adverse effect on our business, results of operations and financial condition.

In addition, the prices of our raw materials fluctuate from time to time. Even if there is an increase in the market price of our products, it may not be enough to offset an increase in the prices of raw materials, and as a result, our business, financial condition, results of operations and prospects may be materially and adversely affected. For example, our gross margin for the year ended December 31, 2017 decreased to approximately 16.0% from 23.1% for the year ended December 31, 2016 as the increase of our raw material costs outpaced the increase in the selling prices of our aluminum products. If prices of our raw materials increase while the market prices of our products decrease or do not increase correspondingly for any reason, our business, financial condition, results of operations and prospects will be materially and adversely affected.

***Any disruption in our aluminum product manufacturing facilities or our thermal power stations could materially and adversely affect our business, financial condition and results of operations.***

Our existing PRC aluminum manufacturing facilities, and our thermal power stations are located within or in close proximity to Zouping County or Binzhou Economic Development Zone, in China's Shandong Province. Any disruption or significant damage to our aluminum product manufacturing facilities or our thermal power stations or our alumina production facility from natural or other causes, such as flood, fire and earthquake, could be costly and time-consuming to repair and could disrupt our operations. In such an event, we would be forced to seek alternative manufacturing sites, alumina supply and facilities or electricity supplies, which we believe would be extremely difficult to locate and secure given the highly specialized and large-scale nature of our aluminum product manufacturing business and our significant requirements for alumina and electricity. Even if we are able to identify an alternative manufacturing site, alumina supply or electricity suppliers following the occurrence of such an event, we would likely incur significant additional costs and experience disruptions in the production of our products.

Our operations may be disrupted for other reasons as well. For example, in recent years, the government has been engaged in revising policies to reform the supply side of the aluminum industry. Of particular relevance, in April 2017, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology, the Ministry of Land and Resources and the Ministry of Environmental Protection jointly issued the Notice of Specific Action Working Plans Regarding Regulating Unlawful Electrolytic Aluminum Projects\* (《清理整頓電解鋁行業違法違規項目專項行動工作方案的通知》), which was aimed at regulating unlawful electrolytic aluminum projects. As a result of this policy, our Company was required to reduce our production scale by shutting down relevant aluminum production facilities and ancillary facilities with annual production capacity of 2.68 million tons. Such reduction could have a material, adverse effect on our production, revenue and net profits going forward. For the year ended December 31, 2017, we made provision for impairment of assets of approximately RMB4,828.8 million related to our shutting down of these projects, which had a material adverse effect on our net profit for the year ended December 31, 2017. Following a suspension of a portion of our production capacity as described above, our aggregate annual production capacity at our manufacturing bases fell from 7.436 million tons of aluminum products as of December 31, 2016 to 6.46 million tons (inclusive of newly installed production capacity of approximately 1.70 million tons) as of December 31, 2017. In addition to supply-chain reform, if we fail to procure adequate raw materials or electricity for our production activities or at all, our operations will also be disrupted.

Moreover, our smelting pots contain molten electrolytic aluminum. Should our production facilities suspend operations for any reason, such molten electrolytic aluminum would be solidified by the low temperature, and as a result, it would take a significant time and extra electricity to recommence operations. Any disruption in our operations could have a material adverse impact on our ability to produce sufficient quantities of products or may require us to incur significant expenses in order to produce sufficient quantities to meet our contractual obligations, and could impair our ability to meet the demand of customers and result in customers cancelling their purchase orders, any of which could materially and adversely affect our business, financial condition and results of operations.

***If the end-user markets of aluminum products contract or do not grow at the pace we expect, our business, financial condition and results of operations may be materially and adversely affected.***

Our business development has depended, and will continue to depend, substantially on the growth of end-user markets for aluminum products. Growth in sales of our aluminum products has been primarily driven by growth in the end-user markets in which our aluminum products are used, particularly in the construction, electrical, transport and consumer durables sectors in the PRC. Any decline in the demand for our aluminum products from end-users could have a material adverse effect on our business, financial condition and results of operations.

***Imposition of relevant tariffs on aluminum products by oversea countries may adversely affect our results of operations.***

In March, 2018, the government of the United States imposed a tariff of ten percent on aluminum products exported to the U.S., subject to certain exemptions. Most of our aluminum products are sold to downstream customers in the PRC and we are not directly subject to international import tariffs. However, as certain of our customers or their customers may export aluminum products to the United States and other foreign countries, any tariffs or other disruptions to the demand for Chinese aluminum products overseas could have a material adverse effect on demand for our products, our financial condition and our results of operations.

***If we fail to obtain sufficient amounts of raw materials that meet our production requirement, quality standards and at commercially acceptable prices, our business, financial condition and results of operations will be materially and adversely affected.***

Our business requires certain key raw materials, such as alumina, carbon anodes and fluorides. We cannot assure you that we will not experience any shortage in their supply in the future. If any shortage occurs, it could materially and adversely affect our production, business and results of operations. If any of our existing suppliers is unwilling or unable to provide us with high-quality raw materials in required quantities and at commercially acceptable prices, we may be unable to find alternative sources at commercially acceptable prices, on satisfactory terms in a timely manner, or at all, which would have a material adverse effect on our business, financial condition and results of operations.

In particular, because alumina is one of the principal components of our cost of goods sold, accounting for approximately 74.0% and 65.6% of our total purchase cost of raw materials for 2016 and 2017, respectively, the price of alumina has a significant impact on our profitability. According to Antaike, the average price of alumina (not including taxes) in China was approximately RMB2,074 per ton and RMB2,904 per ton (US\$446 per ton) for 2016 and 2017, respectively. Any increase in the price of alumina may increase our costs of sales. Although we seek to pass on the increased costs to consumers, we may not always be able to do so for reasons beyond our control. For example, we may not be able to increase the price of our products because our competitors may adopt a low pricing strategy or the increased price may cause consumers to choose alternative alumina products. If we are not able to pass on the cost increases to consumers, our results of operations may be materially and adversely affected. Although we have begun self-production of alumina and self produced 73.4% and 85.7% respectively, of our alumina requirements in 2016 and 2017, we expect to continue to procure alumina from external suppliers in the future. We cannot assure you that there will not be any sudden shortages in our supply of alumina, or any fluctuations in its price due to changes in market conditions. In the event that the cost of alumina or any other raw materials that we use in the future increase significantly and we are not able to pass on the additional cost to our customers, our profit margin may be reduced.

***We were the subject of a number of negative reports in 2016 and 2017 and may face negative publicity or unfavorable research reports in the future.***

From time to time, our Company may face negative publicity or unfavorable research reports relating to our business, financial performance, financial reporting or operations. For example, in the end of 2016 and beginning of 2017, we became aware of several reports that were published containing a number of negative allegations regarding our Group, including, among others, that our Company under-reported key costs, concealed related parties and related party transactions, and falsified cash position and other financial positions. See “Business – Negative Reports and Company’s Response” for detailed information. In response to these negative allegations, our Company has provided a detailed refutation of the allegations contained in the Negative Reports in a number of public announcements, including the announcements of our Company dated November 23, 2016 and December 20, 2016, October 25, 2017, November 12, 2017 and November 14, 2017.

Nonetheless, such allegations have seriously damaged our Company's corporate image, credit and reputation, and have caused significant fluctuation in the share price of our Company. In order to protect the interest of Shareholders and potential investors of our Company, we have engaged special legal counsel and filed a lawsuit against the relevant parties in court in Hong Kong to seek remedy for defamation. However, there can be no assurance that we will win our court case. There can also be no assurance that new reports will not be published containing the same or further allegations regarding the Company and our business. Although we may, as we did in the past, defend ourselves against any such allegations through legal and administrative proceedings as appropriate, we cannot assure you that such proceedings will result in a ruling or decision to our favor nor that the negative publicity effect imposed by those allegations would be eliminated or reduced upon a positive ruling. Any such negative publicity or unfavorable research reports, even if malicious or prepared on an unfounded factual basis, could have a material adverse effect on the trading price of the Notes and our Shares, and further damage our Company's reputation, business and results of operations.

***Our Shares were suspended from trading on the Hong Kong Stock Exchange from March 22, 2017 to October 29, 2017, our auditors were changed and the publication of our 2016 annual results and 2017 interim results were delayed.***

As a result of the Negative Reports, we suspended trading in our shares on the Hong Kong Stock Exchange on March 22, 2017. This suspension was to allow time for BT Risk Assurance, an independent third party professional service firm, to carry out certain agreed-upon procedures in relation to allegations in the Negative Reports and the Audit Findings before finalizing and publishing our annual results for 2016. Our then auditors, Ernst & Young, citing the inability of the Company and Ernst & Young to reach a consensus in relation to an independent investigation on its Audit Findings, resigned as the auditors of our Group with effect from April 27, 2017. See "Business – Change of Auditors." Subsequently, pursuant to a letter from the Hong Kong Stock Exchange, certain conditions for resumption of trading in our Shares were set out, including that we address the Audit Findings and clarify the allegations in the 2016 Negative Report and the 2017 Negative Report, publish all outstanding financial results and address any audit qualifications and inform the market of all material information. See "Business – Negative Reports and Company's Response". Following the appointment of SHINEWING (HK) CPA Limited as the new auditors of the Company on August 31, 2017, we announced our annual results for 2016 and our interim results for 2017 on October 27, 2017. With all the conditions for the resumption of trading in our Shares being fulfilled, trading of our Shares on the Hong Kong Stock Exchange resumed with effect from October 30, 2017. Although we currently do not foresee any future suspension of trading in our shares or any delay in the release of our annual or interim results or further change of our auditors, we cannot assure you that such events could not recur in the future. If the trading in our Shares on the Hong Kong Stock Exchange is suspended in the future, or we change our auditors or otherwise are unable to release our financial results in a timely manner, our reputation, business, financial condition and results of operations, as well as the trading price of the Notes may be materially and adversely affected.

In addition, the financing agreements that we enter into from time to time in the ordinary course of business may contain customary information undertakings, including the requirement to furnish our annual and interim results to the respective lenders within the timeline specified therein. If we are unable to comply with the terms in our existing and future debt obligations and other agreements, there could be a default under the relevant obligations and agreements. If this were to occur, the lenders under such borrowings could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. We cannot assure you that we will be always able to furnish our annual results and interim results in time or obtain a waiver from the relevant lenders to extend the timeline specified in the future, which may cause acceleration of the outstanding indebtedness and hence have a material and adverse effect on our business, financial condition and results of operations.



***We rely on a limited number of suppliers to supply a large percentage of our raw materials and energy requirements.***

We rely on a limited number of large suppliers to provide us with the raw materials and energy we need to produce our aluminum products. In 2016 and 2017, our five largest suppliers together accounted for approximately 35.1% and 36.9%, respectively, of our total procurement costs, with our largest supplier accounting for approximately 24.4% and 25.6%, respectively.

If there is any material adverse change in the business, financial condition or results of operations of a major supplier, or if it enters into bankruptcy proceedings, our business, financial condition and results of operations could be materially and adversely affected. Moreover, if our current suppliers are unwilling or unable to provide us with alumina and electricity in required quantities and at commercially acceptable prices, or if they are required by relevant PRC regulatory authorities to comply with more stringent procedures and requirements than those currently in place, or if the relevant PRC regulatory authorities are of the view that the approval, construction, environmental or safety compliance of the production of alumina of our suppliers do not fully comply with relevant PRC laws, rules or regulations, or if they are ordered by relevant PRC regulatory authorities to change, suspend construction or production or close relevant production facilities as a result of any past, or future illegal operation, or any past or future non-compliance with relevant PRC laws, rules or regulations, resulting in inadequate or delayed supply of alumina or electricity to us, or if there is any material adverse change in the business, financial condition and results of operations of our suppliers, we may be unable to find alternative sources at the same price level offered by our existing suppliers or at otherwise commercially acceptable prices or terms in a timely manner, or at all, which would disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and prospects.

In particular, alumina and electricity are two principal cost components of our cost of sales. Although we have increased our own in-house production, nonetheless, we expect to continue to purchase substantial amounts of alumina and electricity for the foreseeable future. We purchase alumina from a limited number of suppliers. In addition, in 2016 and 2017 we procured all electricity that we did not self-produce from a single external supplier, as we had done since January 2010. Beginning in January 2018, we stopped purchasing alumina and electricity from the supplier which had provided the majority of our purchased alumina and all of our externally purchased electricity for the years ended December 31, 2016 and 2017, and for several before that and began purchasing each from a new supplier with which we have limited history.

***If the bauxite supply to our alumina suppliers or us is disrupted, our business, financial condition and results of operations will be materially and adversely affected.***

During recent years, we actively expanded our procurement channels of bauxite, which is the upstream production raw material of alumina, by importing bauxite from various places of origin including Indonesia, the Republic of India, Brazil, Malaysia and the Commonwealth of Australia as well as our own bauxite mining project in Guinea. However, if there is any change in the government policies and regulations for bauxite export in overseas' markets, we may encounter difficulties and challenges. For example, the Indonesian government imposed an export ban of the unprocessed ores, nickel and bauxite in 2014 (Indonesia's Law No. 4/2009 on Minerals and Coal Mining). The export of ores that are not processed to the required levels currently remains illegal. Failure to comply with the ban could result in producer companies losing their licenses to mine. If Indonesian regulators find that any of our suppliers in Indonesian failed to fulfill the specific terms under the applicable legislation, government regulators may levy fines, suspend or terminate licenses, or other governmental permissions. A suspension and/or the subsequent termination of licenses or refusal to renew licenses, and/or other governmental permissions or permits could materially adversely affect the ability of our suppliers to export bauxite. Export bans on bauxite in Indonesia which increase the transportation cost and the global bauxite price, may adversely affect China's aluminum product manufacturers, including our alumina suppliers and us.

Any disruption to the bauxite supply to our alumina suppliers or us due to regulatory changes in places where our bauxite suppliers are located, or due to other factors, could have a material adverse impact on our business, financial condition and results of operations.

***Current environmental liabilities as well as the cost of compliance with, and liabilities under, health and safety laws could increase our operating costs and negatively affect our financial condition and results of operations.***

Our operations are subject to environmental laws and regulations, which govern, among other things, air emissions, wastewater discharges, the handling, storage and disposal of hazardous substances and wastes, the remediation of contaminated sites and employee health and safety. Compliance with environmental protection regulations in the PRC could be costly, and we may become subject to additional environmental compliance requirements in connection with our business operations. In recent years, environmental issues have received increasing attention in the PRC. For example, since April, 2017, the Ministry of Environmental Protection (the “MOEP”) has implemented tightened standards and additional pollution control measures on the industry in 28 cities in the Northern PRC, which include Beijing, Tianjin and the surrounding areas. As part of this process, the MOEP, the NDRC, certain other relevant national government authorities and the People’s Government of Beijing, Tianjin, Hebei, Shanxi, Henan and six other provinces jointly issued a series of air pollution control measures and policies. These environmental regulations have imposed and could impose stricter compliance requirements on the industries in which we operate. Additional pollution control equipment, process changes, or other environmental control measures may be needed at some of our facilities to meet future requirements. Furthermore, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with any future environmental regulations, we may be required to pay substantial fines, suspend our manufacturing or even cease operations, and our reputation, business results of operations and financial condition may be adversely affected.

Financial responsibility for contaminated property may be imposed on us where our operations have had an environmental impact. Such liability may include the cost of investigating and remediating contaminated soil or ground water, fines and penalties sought by environmental authorities, and damages arising out of personal injury, contaminated property and toxic tort claims. The costs of such matters have not been material to our net income in the past. However, future remedial requirements at currently owned or operated properties or adjacent areas could result in significant liabilities.

***We may not be able to grow our business successfully.***

Our growth prospects and future profitability depend on, among other matters, our ability to successfully maintain and expand our production capability and capacity, either generally or with respect to demand from customers. As such, we have historically expanded our overall production capacity. Such expansion has placed, and will continue to place, substantial demands on our managerial, operational, financial, technological and other resources.

In particular, we are continuing to strengthen our production capacity for aluminum fabrication products such as aluminum foil, aluminum alloy casting-rolling products and high precision aluminum plate and strip products. In addition, we continue to expand into relevant upstream business pursuant to our strategy of enhancing vertical integration. The first phase of the alumina production plant built and operated by our joint venture company in Indonesia commenced operations in the first half of 2016, and we expect construction of the second phase of such alumina production facilities, with the same alumina production capacity to be constructed in the near future. In 2015, we also entered into a joint venture with among others, China Yantai Port Group, United Mining Supply of Guinea (a French-invested company in Guinea) and Wining Singapore International Group for the purpose of developing a bauxite mining project in the Republic of Guinea. Going forward, we may continue to invest or acquire other downstream or upstream businesses in the PRC or overseas.

We may not be able to sell our products (including our advanced aluminum fabrication products) at the prices that we expect, or at all, and we may not be able to manufacture these products successfully. We may not be able to fully utilize the additional electricity we plan to generate or produce alumina up to the required standard, or at all. Also, we may not be able to identify appropriate investment or acquisition targets and we may fail to obtain the necessary approvals, permits or filings or develop our projects in a timely fashion or at all. In any of these events, our business, financial condition and results of operations could be materially and adversely affected as a result.

Furthermore, we cannot assure you we have sufficient experience and expertise in related upstream and downstream businesses in the PRC. In addition, we have limited experience and expertise in managing aluminum products manufacturing business or related upstream or downstream businesses outside of PRC. We may not be able to achieve the vertical integration that we are targeting. Any future expansion, in relation to our existing production line or new products, will also place significant demand on us to maintain the quality of our products. We will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvements to our internal management systems. We will also need to continue to implement effective training programs to ensure consistently high-quality performance by our employees. All of these measures will require substantial management efforts. If we are unable to effectively manage our growth, our business, financial condition and results of operations may be materially and adversely affected.

***Our joint venture arrangements involve a number of uncertainties and risks, which could materially and adversely affect our business, financial condition and results of operations.***

As part of our strategies, we may continue to evaluate opportunities to acquire or invest in different regions and markets. For example, in December 2012, we established the Indonesian Alumina Joint Venture Company for alumina production, in which we hold a 61% interest, directly and indirectly. The first phase of our joint ventures alumina production plant commenced operations in the first half of 2016. In addition, in 2015 we entered into joint venture arrangements with, among others, China Yantai Port Group, United Mining Supply of Guinea (a French-invested company in Guinea) and Wining Singapore International Group for the purpose of developing a bauxite mining project in the Republic of Guinea.

Mergers, acquisitions or joint ventures that we have entered into and may enter into in the future entail a number of risks that could materially and adversely affect our business, results of operation and financial conditions, including, among others:

- our joint venture partners may be unable or unwilling to perform their obligations under the joint venture arrangements, including their obligations to make required capital contributions;
- our joint venture partners may have different economic or business objectives, and may take actions contrary to our instructions, requests or policies;
- our joint venture partners may have financial difficulties, which may affect their ability to perform their respective obligations under the joint venture agreement;
- disputes may arise as to the scope of each party's responsibilities under such arrangement;
- the results of operations of the joint venture company may not meet our expectations; and
- we may not be able to dispose of our shares in the joint venture company, if desired in the future, on terms that are favorable or acceptable to us, or at all.

In addition, the operation of overseas businesses are subject to the economic, political and social conditions in the relevant local markets. Any adverse change in the economic, political and social conditions or government policies in the relevant local markets could have a material adverse effect on

the business and development of these ventures. We also lack experience of international operations and may face risks associated with operating internationally, including fluctuations in currency exchange rates, difficulty and costs relating to compliance with the different commercial and legal requirements overseas, difficulty in engaging and retaining qualified personnel for international operations, failure to develop appropriate risk management and internal control structures tailored to overseas operations, trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses.

In the event that we encounter any of the foregoing problems with respect to our joint venture arrangements, our business, financial condition and results of operations could be materially and adversely affected.

***If any of our large customers reduces its purchases of, or fails to pay for, our products, our business, financial condition and results of operations will be materially and adversely affected.***

Our five largest customers accounted for approximately 64.2% and 66.0% of our revenue of continuing operations for 2016 and 2017, respectively. Our largest customer accounted for approximately 45.0% and 48.1% of our revenue of continuing operations for the same years. We have relatively short relationship histories with some of our top customers.

Our business, financial condition and results of operations will continue to depend on: (i) our ability to continue to obtain purchase orders from our customers; (ii) the financial condition and commercial success of our customers; and (iii) factors that affect the development of the aluminum production industry. We cannot assure you that we will be able to retain any of our large customers or any other key customers. Any material delay or reduction in, or cancellation of, purchase orders from our key customers could cause our sales to decline significantly, and in any such event, our results of operations may be materially and adversely affected. We cannot assure you that these customers will place orders with us in the future at the same levels as in prior periods, or that any of these or future customers will not terminate their purchase agreements with us or significantly change, reduce, delay or cancel their purchase orders. If any of the foregoing events occurs, especially with respect to our large customers, there would be a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations also depend on the financial condition and commercial success of these customers. Although we have not experienced any material default or delay in payments by our customers, we cannot assure you that it will not occur in the future. If one or more of our large customers were to become insolvent or otherwise unable to pay for the products supplied by us, our business, financial condition, results of operations and business prospects would be materially and adversely affected.

In addition, one or more of our key customers may reorganize by means of a corporate spin-off, merger or otherwise. Any such reorganization could disrupt, slow down or otherwise materially affect their business and operations and, therefore, our revenue. Moreover, the entities resulting from such reorganization may change suppliers or sourcing policies. If any of our key customers decides to significantly change its procurement methods, or otherwise reduces or eliminates the purchase of our aluminum products, our revenue would decline significantly.

***We derive a significant portion of our revenue of aluminum products through the sales of molten aluminum alloy.***

All of our molten aluminum alloy customers are in close proximity to our relevant manufacturing bases. Our revenue generated from sales of molten aluminum alloy accounted for approximately 87.7% and 81.4% of our total revenue for years ended December 31, 2016 and 2017, respectively. If demand for our molten aluminum alloy does not increase in line with our business plan or if such demand decreases, we will have to look for alternative customers for our other aluminum products. However, we may be

unable to find alternative customers for our other aluminum products or at commercially acceptable prices on satisfactory terms in a timely manner, or at all, which would have a material adverse effect on our business, financial condition and results of operations.

***If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our operating expenses could increase.***

We are highly dependent upon third party logistics service providers to deliver our products to our customers. As we seek to closely match our inventory levels to our product demand, it is critical that our transportation systems function effectively and without delay. The transportation network is subject to disruption from a variety of causes, including operational inefficiencies, labor disputes or port strikes, acts of war or terrorism and natural disasters. In particular, as a hazardous good for transportation, the transport of our molten aluminum alloy may be delayed due to bad weather conditions, such as heavy snow. If our delivery time increases unexpectedly for these or any other reasons, our ability to deliver our aluminum products on time would be materially and adversely affected and result in delayed or loss of revenue. In addition, if fuel prices were to increase, our transportation costs would likely further increase. A prolonged transportation disruption or a significant increase in the cost of transportation could materially and adversely affect our business, financial condition and results of operations.

***We rely on a limited number of transport companies to deliver our molten aluminum alloy products to our customers and it may be difficult to find alternative carriers.***

Molten aluminum alloy has to be transported in specially designed containers to keep its temperature at 750°C to 900°C during delivery. Molten aluminum alloy is considered a hazardous good for transportation and special licenses and equipment are required for its transport. Prior to June 2016, we engaged a single service provider for the delivery of all of our molten aluminum alloy products. Since June 2016, we have used two transport companies for delivery of our molten aluminum alloy products. If our current carriers are unwilling or unable to continue to deliver molten aluminum alloy for us, it may be difficult to find alternative carriers due to the special requirements for molten aluminum alloy transport. If we are unable to find alternative carriers on satisfactory terms in a timely manner, or at all, our business, financial condition and results of operations would be materially and adversely affected.

***If our electricity costs increase significantly or if we are unable to obtain sufficient electricity supply, our business, financial condition and results of operations will be materially and adversely affected.***

Aluminum production requires a stable supply of electricity in large quantities. Our electricity cost was approximately RMB17,343.1 million and RMB30,757.0 million (US\$4,727.3 million) for 2016 and 2017, respectively. We have been able to meet our electricity needs by generating electricity using our own thermal power stations and by purchasing from our existing external supplier. However, we may experience increased electricity costs, electricity shortages or disruptions in electricity supply in the future. For example, coal is an important material used to generate electricity. We purchase coal from a number of coal suppliers and have entered into long-term coal supply agreements with certain of such suppliers. The purchase cost of coal accounted for approximately 30.5% and 25.2% of our total cost of sales for 2016 and 2017, respectively. As a result, any increase in the price of coal could increase the cost of electricity generated by our thermal power stations. We also cannot assure you that our suppliers will not terminate or fail to perform under these long-term coal supply agreements.

In addition, the price of electricity we purchase from our existing external supplier is subject to adjustment through negotiation if the price of coal fluctuates significantly. As a result, any increase in the price of coal could increase the price of electricity we purchase. Also, if our existing external suppliers of electricity chose to terminate our electricity supply agreement with them, we cannot guarantee you that we may be able to find alternative sources at the same price level or at otherwise commercially acceptable prices or terms in a timely manner. If there is a significant increase in our

electricity costs as a result of an increase in coal cost or other reasons, an insufficient electricity supply to satisfy our production needs or any disruption in electricity supply, our business, financial condition and results of operations would be materially and adversely affected.

***We may require additional capital in the future, which may not be available to us on commercially acceptable terms in time, or at all.***

Alumina and aluminum production facilities and thermal power stations are highly capital-intensive to construct and maintain. Our capital expenditures amounted to approximately RMB20,830.4 million, RMB8,768.5 million (US\$1,347.7 million) for 2016 and 2017, respectively, which were primarily used in the expansion of our production capacity, construction of ancillary captive power facilities and our alumina production base in Indonesia. Our future capital requirements may be substantial as we may continue to seek to grow our business in the future. In addition, as of December 31, 2016, we had net current liabilities of RMB873.6 million. While we had net current assets of RMB10,077.8 million as of December 31, 2017, we cannot assure you we will not have net current liabilities again in the future, which could limit our working capital for the purposes of operations or capital for our future plans. We may need to raise additional funds to meet our capital requirements. From time to time, our plans may change due to changing circumstances, the development of our business, unforeseen contingencies or new opportunities and we may not be able to implement our plan within our budget. If our plans do change, we may need to obtain additional external financing to meet our capital expenditure plans, which may include commercial bank borrowings or the issuance of equity or debt securities. The People's Bank of China (the "PBOC") decreased the benchmark one-year lending rate four times in 2015, and subsequently increased in a new benchmark one-year lending rate of 4.35%. As of December 31, 2017, the benchmark one-year lending rate was 4.35%. However, increases in interest rates might occur in the future. Increases in interest rates increase our financing costs. In addition, if we decide to raise additional funds through the incurrence of debt, our interest and debt repayment obligations will increase, and we may be subject to additional covenants, which could limit our ability to access cash flows from operations. We cannot assure you that we will be able to raise adequate financing to fund our future capital requirements on commercially acceptable terms in time, or at all.

***We face intense competition in China.***

The industry in which we operate in is highly competitive. Players in this industry generally compete with each other on factors such as reliability and quality of products, pricing, location of manufacturing site, time-to-market and available capacity. Some of our competitors may have longer track records and greater financial and other resources. There can be no assurance that we can continue to compete successfully in the future. In the event that we are unable to compete with other market players effectively, our business, financial condition, results of operations and prospects will be materially and adversely affected.

***Our production capacity may not correspond precisely to the demand for our products.***

On occasion, customers may require unusually rapid increases in output beyond our production capacity, and we may not have sufficient capacity at any given time to meet sharp increases in our customers' requirements. As a result, we may lose our customers and our reputation may be damaged. In addition, in the event that a customer reduces, defers or cancels its purchase orders after we have invested in increasing our capacity, our sales, profit margins and financial condition may be adversely affected because we may not be able to recover our expenditures for inventory purchased in preparation for customer orders and we may not be able to realize optimal asset utilization of our aluminum manufacturing facilities.

***Our future success depends in part on our ability to retain our executive Directors and senior management.***

Our future success depends significantly on the continuing services of our executive Directors and senior management of our Group, in particular, Mr. Zhang Bo, our executive Director and chief executive officer. Mr. Zhang Bo is critical to the development of our business and strategic direction. If any member of our executive Directors and senior management, whose names are set out in the section headed “Directors and Senior Management” in this offering circular, is unable or unwilling to continue in his or her present positions, we may not be able to replace such member easily in a timely manner or at all, or we may incur additional expenses to recruit, train and retain personnel. Moreover, if any of these key personnel joins a competitor, we may lose customers, suppliers and know-how as well as other key professionals and staff members. The loss of any key personnel by our Group could have a material adverse effect on our business, financial condition and results of operations.

***Our results of operations may fluctuate from period to period.***

Our results of operations are subject to significant fluctuations. Some material factors affecting our results of operations include, but are not limited to:

- alterations in demand for our aluminum products;
- our customers’ sales outlook, purchasing patterns and changes in inventory level;
- our effectiveness in managing the manufacturing processes and controlling costs;
- our ability to optimize our available manufacturing capability;
- changes in the cost and availability of raw materials and electricity, which frequently occur in our industry and which affect our margins and our ability to meet delivery schedules;
- our ability to obtain financing in a timely manner; and
- local conditions and events that may affect our production volumes, such as labor conditions, stability of electricity supply, political instability and local holidays.

Due to the factors mentioned above and other risks discussed in this section, many of which are beyond our control, our results of operations may fluctuate from period to period.

***The interests of Mr. Zhang, our chairman and Controlling Shareholder, may differ from those of our Group and the holders of the Notes, and Mr. Zhang has the ability to cause us to make decisions that may not be in the best interests of the holders of the Notes.***

Mr. Zhang, our chairman and Controlling Shareholder, currently beneficially owns approximately 67.99% of the issued share capital of our Company. As such, Mr. Zhang has, and will continue to have, substantial influence over our business. We cannot assure you that Mr. Zhang will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the interests of the holders of the Notes.

***We may not be able to adequately protect our intellectual property rights.***

Our success depends in part upon our intellectual property rights and know-how. However, we may not be able to adequately protect such intellectual property rights. In addition, any attempt to enforce our intellectual property rights, even if successful, could result in costly and prolonged litigation, divert our management’s attention and adversely affect our financial performance. Failure to adequately protect our intellectual property may materially and adversely affect our results of operations as our competitors

would be able to utilize such property without having to incur the costs of developing it, thus potentially reducing our relative profitability. Also, if we fail to effectively protect our brand name from inappropriate use by third parties in ways that adversely affect our brand name, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations. Furthermore, we may be subject to claims that our technology infringes upon the intellectual property rights of other parties. Even if without merit, such claims could result in costly and prolonged litigation, divert management's attention, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

***Product liability claims against us could result in significant costs or negatively affect our reputation and could materially and adversely affect our business, financial condition and results of operations.***

As of the date of this offering circular, we had not been subject to any material product liability claims. However, we cannot assure you that we will not experience material losses arising from product liability claims in the future. We do not maintain any product liability insurance. If our products fail to meet the required specifications or quality standards, our business could be materially and adversely affected. We may also face liability claims due to possible defective products. Such claims may be pursued by way of contractual remedy or by way of civil action if the defects in our products result in damages or injuries suffered by third parties. In such event, our reputation and our business, financial condition and results of operations would be materially and adversely affected.

***Change in fair value of the compound derivative components of our November 2017 CB may impact our profit or loss.***

We issued our US\$320,000,000 5.0% convertible bonds due 2022 on November 28, 2017. The November 2017 CB which contain both liability and multiple embedded derivatives (including conversion option that will be settled other than by the exchange of fixed amount of cash or another financial instrument for a fixed number of our Company's own equity instruments and redemption options) are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liabilities and an equity instrument. Multiple embedded derivatives are generally treated as a single compound derivative. Derivatives are initially recognized at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

At the date of issue, both the liability and the compound derivative components of the November 2017 CB are recognised at fair value. The fair value of the compound derivative components of the November 2017 CB is determined by derivative valuation models that take as inputs several variables including risk-free rate, expected life and volatilities. Any changes in these inputs into the model will result in changes in the fair value of the compound derivative component, which could be substantial and have a significant impact on our profit or loss.

***We may not have sufficient insurance coverage for the risks associated with our business operations.***

Risks associated with our production include damage to production facilities, environmental pollution, transportation damages and delays, industrial damages and risks posed by natural disasters, any or all of which may result in losses to us. We may also be unable to obtain or maintain insurance policies covering risks associated with natural disasters, business interruption or environmental damages arising from our production activities. In addition, we do not have any product liability insurance. Therefore, if we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be adversely affected.



***Any global or regional financial crisis could have a negative impact on the global economy, including the aluminum industry. Economic downturns could materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.***

The global financial crisis which commenced in the second half of 2008 and subsequent economic crisis in Europe caused substantial volatility in the capital markets and a downturn in the global and PRC aluminum industry. As a result of such financial crises, growth rates of aluminum consumption in China might slow down, and the prices of aluminum products could experience dramatic fluctuations. Furthermore, banks' lending policies and the availability of credit to non-state-owned entities, such as ourselves, are significantly influenced by global financial conditions, governmental policies and levels of investor confidence in credit markets, which in turn affect the costs or availability of funding for entities like us. If global or regional economic downturns occur or there are other prolonged disruptions to the credit markets, this could limit our ability to raise funds from our current or other funding sources or cause the funds to become more expensive, either of which may materially and adversely affect our business, financial condition, results of operations and prospects.

***We face risks related to health epidemics and other outbreaks.***

Our business could be adversely affected by the effects of the ebola virus, H1N1 flu, H5N1 avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics or outbreaks. In 2006, 2007 and 2008, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. In April 2009, an outbreak of H1N1 flu occurred in Mexico and the United States and human cases of H1N1 flu were discovered in China and Hong Kong. In 2014, there was an ebola virus outbreak in Africa. Any prolonged occurrence or recurrence of these pandemic diseases or other adverse public health developments in China or any of the major markets in which we do business, or the fear of such development, may have a material adverse effect on our business and operations. These could include our ability to deliver our products, as well as temporary closure of our manufacturing facilities, or our customers' facilities, leading to delayed or cancelled orders. Any severe travel or shipment restrictions and closures would severely disrupt our operations and adversely affect our business, financial condition and results of operations.

### **Risks Relating to Our Industry**

***Changes in laws, regulations or enforcement policies in China could adversely affect our business.***

Laws, regulations and enforcement policies in China, including those regulating the aluminum industry, and power industry, require our Group to obtain various licenses, certificates, permits, and approvals from the relevant PRC administrative authorities for our construction and operation of alumina production facilities and power stations. Some of the Group's PRC subsidiaries are in the process of obtaining or renewing their qualification certificates. Such Laws, regulations and enforcement policies are evolving and are subject to future changes. These changes could impact the business of Chinese aluminum product manufacturers. Furthermore, different regulatory authorities may have different interpretation and enforcement of the aluminum industry policies, which requires companies to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies.

In recent years, the government has been engaged in revising policies to reform the supply side of the aluminum industry. Of particular relevance, in April 2017, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology, the Ministry of Land and Resources and the Ministry of Environmental Protection jointly issued the Notice of Specific Action Working Plans Regarding Regulating Unlawful Electrolytic Aluminum Projects\* (《清理整頓電解鋁行業違法違規項目專項行動工作方案的通告》), which was aimed at regulating unlawful electrolytic aluminum projects. As a result of this policy, our Group was required to reduce our production scale by shutting down relevant aluminum production facilities and ancillary facilities with annual production

capacity of 2.68 million tons. Such reduction could have a material, adverse effect on our production, revenue and net profits going forward. For the year ended December 31, 2017, we made provision for impairment of assets of approximately RMB4,828.8 million related to our shutting down of these projects, which had a material adverse effect on our net profit for the year ended December 31, 2017.

Following a suspension of a portion of our production capacity as described above, our aggregate annual production capacity at our manufacturing bases fell from 7.436 million tons of aluminum products as of December 31, 2016 to 6.46 million tons (inclusive of newly installed production capacity of approximately 1.70 million tons) as of December 31, 2017.

If applicable laws and regulations change adversely or the relevant regulatory authorities change their interpretation or enforcement of relevant policies in the future, we may be required to obtain further approvals or to meet other additional regulatory requirements. In addition, we may not be able to access the credit markets or obtain financing through corporate debt, commercial paper, medium-term notes, convertible bonds or equity issuances under the current industry policies.

If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, or stricter enforcement policies by the relevant PRC regulatory authorities, more stringent requirements could be imposed on the industry in which we are currently engaged. Compliance with such new requirements could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to meet such new rules and requirements relating to approval, construction, environmental or safety compliance of our operations, we may be ordered by the relevant PRC regulatory authorities to change, suspend construction of or close the relevant production facilities. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial condition and results of operations could be materially and adversely affected.

***Our business involves inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs.***

Our business involves inherent risks and occupational hazards. Due to the nature of our business, we engage or may engage in certain inherently risky and hazardous activities, including, among others, operations which involve preparing and handling high temperature materials, the production, handling and use of high voltage electricity, the transportation of hazardous products and handling hazardous materials in our operations. We are subject to the risks associated with these activities, including spillage of high temperature materials, equipment failures, industrial accidents, fires and explosions. These risks and hazards may result in personal injury and loss of life, damage to or destruction of properties or production facilities, and pollution and other environmental damage.

We cannot assure you that the same will not happen at our manufacturing bases in the future. Any of these risks could result in business interruption, possible legal liability and damage to our business reputation and corporate image. In addition, we may also be subject to claims resulting from the subsequent use by our customers or other third parties of the products we have produced. If any of the above happens, our business, financial condition and results of operations would be materially and adversely affected.

***Certain facts and other statistics with respect to China, the PRC economy and the global and PRC aluminum industries in this offering circular are derived from various official government sources and may not be reliable.***

Certain facts and other statistics in this offering circular relating to China, the PRC economy and the global and PRC aluminum industries and related markets have been derived from various official government publications. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of

their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

### **Risks Relating to Doing Business in the PRC**

#### ***Changes in China's economic, political and social conditions could adversely affect our business, financial condition and results of operations.***

We conduct substantially all of our operations in China and derive a significant amount of our revenue from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are materially affected by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC economy has grown significantly in recent years; however, we cannot assure you that such growth will continue. Recently, the PRC government has taken measures to tighten the control over bank lending. Any adverse change in the economic, political and social conditions or government policies in China could have a material adverse effect on overall economic growth, which in turn could lead to a reduction in demand for our aluminum products and consequently have a material adverse effect on our business, financial condition and results of operations.

#### ***Uncertainties with respect to the PRC legal system could have a material adverse effect on us.***

We conduct all of our manufacturing operations through our operating subsidiaries in China, which are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

#### ***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on currency conversion between Renminbi and foreign currencies and, in certain cases, the remittance of currency out of and into China. We receive all of our revenue in Renminbi, which is currently not a freely convertible currency. Under our current corporate structure, income of our Company will be primarily derived from dividend payments from Shandong Hongqiao. Shortages in the availability of foreign currency may restrict the ability of Shandong Hongqiao to remit sufficient foreign currency to pay dividends to us, or otherwise satisfy its foreign currency-dominated obligations, which may in turn affect our ability to service the Notes. We also plan to transfer a portion of the proceeds from this offering as well as proceeds from our future fund raising activities into China to fund our business operations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, in most cases, particularly payments of capital account items, approval from appropriate PRC governmental authority is required where (i) Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of offshore bank loans denominated in foreign currencies, and (ii) any foreign currency is to be converted into Renminbi for investment in China. The PRC government may also at its discretion restrict access in the future to foreign currencies for current

account transactions. In addition, Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (including its appendixes), or Circular 37, applies to our Company and Mr. Zhang, the Controlling Shareholder of our Group. If the foreign exchange control system prevents us from converting Renminbi into foreign currencies or vice versa, and obtaining sufficient Renminbi or foreign currency to satisfy our currency demands, our ability to transfer Renminbi to fund our business operations in China or to service our Notes may be adversely affected.

***We and/or our non-PRC subsidiaries may be treated as PRC tax resident enterprises and interest on or in respect of the Notes and gain from the disposition of Notes may be subject to PRC tax.***

On March 16, 2007, the National People's Congress of the PRC passed the EIT Law, which took effect on January 1, 2008. On December 6, 2007, the PRC government also adopted the Implementing Rules of the Enterprise Income Tax Law, or the Implementing Rules, which also took effect on January 1, 2008. Under the EIT Law, a unified EIT rate of 25% and unified tax deduction standards are applied to both domestic-invested enterprises and foreign-invested enterprises, or FIEs. Under the EIT Law, a 10% withholding tax is generally imposed on dividends distributed by FIEs to their foreign investors to the extent the distributed dividends are sourced from the PRC, if such foreign investors are neither PRC-resident enterprises nor have any establishment or place of business in the PRC, or if such foreign investors have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or place of business. Pursuant to the arrangement between the PRC government and the Hong Kong SAR, where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, subject to certain approval and filing requirements, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise may be reduced to 5% if the Hong Kong enterprise is the beneficial owner of the income and the PRC authorities approve the reduced rate. Hongqiao Hong Kong currently owns all of the shares of Shandong Hongqiao, and we currently withhold 10% PRC tax from dividends paid by Shandong Hongqiao. However, there can be no assurance that dividends to Hongqiao Hong Kong will be eligible for such 10% withholding tax rate in the future. In addition, the EIT Law deems an enterprise established offshore but with "de facto management bodies" in the PRC to be a "resident enterprise" which is subject to the PRC EIT on its global income, excluding dividends received from its PRC subsidiaries. In 2009 the State Administration of Taxation issued guidance regarding the determination of the location of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. However, it is unclear whether this guidance also reflects the State Administration of Taxation's criteria for determining the location of the "de facto management bodies" for foreign enterprises that are not controlled by PRC enterprises (such as our Company). Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we currently take the position that we and our Hong Kong and BVI subsidiaries are not PRC resident enterprises for tax purposes. However, we cannot assure you that the tax authorities will agree with our position. All members of our management are currently located in the PRC, and we expect them to continue to be located in the PRC in the foreseeable future. We have been advised by our PRC legal advisors, Allbright Law Offices (Beijing), that there is uncertainty as to whether we will be treated as a PRC "resident enterprise" for the purpose of the EIT Law. If the PRC tax authorities determine that we or our Hong Kong or BVI subsidiaries should be classified as resident enterprises, our or our Hong Kong or BVI subsidiaries' global income, excluding dividends received from Shandong Hongqiao, will be subject to PRC income tax at a rate of 25%. PRC tax authorities in different districts may be inconsistent in classifying resident enterprises and non-resident enterprises. The imposition of PRC tax on our global income as a "resident enterprise" under the EIT Law could have a material adverse effect on our business, financial condition and results of operations. If we or the Subsidiary Guarantors are treated as a PRC resident enterprise, interest paid on the Notes or payments under the guarantees may be treated as income derived from sources within the PRC and may be subject to withholding tax and gains from the transfer of Notes might be subject to PRC tax, at a rate of 10% in the case of non-PRC resident enterprise holders and at a rate of 20% in the case of non-PRC individual holders. We will be required

to pay Additional Amounts with respect to PRC withholding tax on interest payments, subject to certain exceptions. See “Description of the Notes – Additional Amounts.” Any payment of Additional Amounts may have a material adverse effect on our financial condition and results of operations.

***We face foreign exchange and conversion risks, and fluctuations in the value of the Renminbi may have a material adverse effect on your investment.***

Although substantially all of our revenue is generated by our PRC operating subsidiaries and is denominated in Renminbi, we are required to settle all amounts due under the Notes (including principal, premium, interest and redemption payments) in U.S. dollars. The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC’s political and economic conditions. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. From January 2014, Renminbi has depreciated against U.S. dollars, from approximately RMB6.05 per U.S. dollar to RMB6.65 per U.S. dollar on June 30, 2016. It is difficult to predict how the Renminbi exchange rates may change. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected. We cannot predict how and to what extent the exchange rate of the Renminbi will fluctuate in the future. To the extent that we need to convert US dollars we receive from the offering into Renminbi for our operations, appreciation of the Renminbi against the US dollar could have a material adverse effect on the value of the net proceeds we will receive from the offering in US dollars, our business, financial condition and results of operations. Conversely, as we rely entirely on dividends paid to us by Shandong Hongqiao, any depreciation of the Renminbi may materially and adversely affect our ability to service the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. We have entered certain swap contracts to manage our foreign exchange rate risks. Following the offering of the Notes, we may enter into additional foreign exchange or interest rate hedging agreements with respect to our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. Each of the Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indenture governing the Notes. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries

and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

### **Risks Relating to the Notes**

***We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.***

We are a holding company with no material operations. We conduct our operations primarily through our PRC subsidiaries and operating companies in other countries such as Indonesia. The Notes will not be guaranteed by any current or future PRC subsidiaries and certain of our offshore subsidiaries such as the Indonesian Alumina Joint Venture Company and its Subsidiaries and Exempted Subsidiaries (as defined in “Description of the Notes”). In addition, our Company may elect to have any future Offshore Subsidiary not provide Subsidiary Guarantee if certain conditions are met. Our primary assets are ownership interests in our PRC and Indonesian subsidiaries, which are held through our subsidiaries incorporated outside the PRC and Indonesia. On the date of issue of the Notes, all of such subsidiaries directly or indirectly owning our PRC subsidiaries (but not our Indonesian subsidiaries) will guarantee the Notes. The guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the guarantors to satisfy their obligations under their guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. In addition, we are permitted to designate certain of our offshore subsidiaries as non-guarantor subsidiaries.

Creditors, including trade creditors of non-guarantor subsidiaries and any holders of preferred shares in such entities, would have a claim on the assets of the non-guarantor subsidiaries that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries that do not guarantee the Notes, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our non-guarantor subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2017, our non-guarantor subsidiaries had indebtedness and capital commitments of RMB63,953.6 million (US\$9,829.5 million) and RMB1,014.2 million (US\$155.9 million), respectively, and no contingent liabilities arising from guarantees. The Notes and the indenture permit us, the guarantors and our non-guarantor subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any guarantor would have priority as to our assets or the assets of such guarantor securing the related obligations over claims of holders of the Notes.

***The Notes and the Subsidiary Guarantees are unsecured obligations.***

As the Notes and the Subsidiary Guarantees are unsecured obligations, the ability of the Company and the Subsidiary Guarantors to fulfill its or their financial obligations may be compromised if:

- the Company or any Subsidiary Guarantor enters into bankruptcy, liquidation, reorganization or other winding-up proceeding;
- there is a default in payment under secured indebtedness or other unsecured indebtedness of the Company or any Subsidiary Guarantor; or
- there is an acceleration of any indebtedness of the Company or any Subsidiary Guarantor.

If any of these events occur, the assets of the Company and the Subsidiary Guarantors may not be sufficient to pay amounts due on the Notes and the Subsidiary Guarantees.

***We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.***

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total indebtedness, including both current and non-current indebtedness, as of December 31, 2017, was RMB70,550.6 million (US\$10,843.4 million), of which RMB8,916.1 million (US\$1,370.4 million) was secured indebtedness. Since December 31, 2017, we have continued to enter into short-term and long-term indebtedness during our ordinary course of business to finance our operation including without limitation, the CBI 2018 Facility (as defined below) in an amount US\$397.5 million (with greenshoe option). Our PRC subsidiaries have entered into bilateral loan agreements with a number of PRC banks. Moreover, our PRC subsidiaries have also obtained approvals from PRC regulators and issued a number of corporate bonds. See “Description of Other Material Indebtedness – Other Onshore Debt Financing.” Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- limit, along with the financial and other restrictive covenants of our indebtedness, our ability to borrow additional funds; and
- increase the cost of additional financing.

We may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indenture restricts us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our existing indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the indenture prohibits us from incurring additional indebtedness unless (i) we are able to satisfy a certain financial ratio or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirement, and meet any other applicable restrictions. Our ability to meet our financial ratio requirement may be affected by events beyond our control. We might not be able to meet this ratio. Such restrictions in the Notes and our other financing arrangements may impair our ability to react to changes in market conditions, take advantage of business opportunities we

believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

***To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness, including these Notes, and to fund planned capital expenditures and project development will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business might not generate cash flow from operations in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We might not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

***Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.***

As a holding company, we may depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC and Indonesian subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In particular, a number of our subsidiaries in the PRC are parties to bank loan agreements. Further, certain loan agreements obtained by our PRC subsidiaries from lender banks in the PRC contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity would not be available to us to make payments on the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, since January 1, 2008, subject to compliance with the relevant requirements in EIT Law, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the guarantees for the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Subject to compliance with the relevant requirements in EIT Law, our PRC subsidiaries are also required to pay a 10% or lower treaty rate withholding tax on our behalf on



the interest paid under any shareholders' loans. PRC regulations require any shareholder loans in foreign currencies made by our non-PRC subsidiaries to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we might not have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the guarantors under the guarantees.

***The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.***

Because we and some of the guarantors are incorporated under the laws of the Cayman Islands, the British Virgin Islands or Hong Kong, an insolvency proceeding relating to us or any such guarantor, even if brought in the United States, would likely involve Cayman Islands, British Virgin Islands or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through subsidiaries in China. The guarantors, as equity shareholders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

***We may be unable to obtain and remit foreign exchange.***

Our ability to satisfy our obligations under the Notes depends largely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% withholding tax or lower tax treaty rate on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

***Our corporate ratings may be lowered or withdrawn in the future.***

We have been assigned a corporate credit rating of "B1" with a stable outlook by Moody's, "B+" with a stable outlook by S&P, "B+" with a stable outlook by Fitch and a "BB" with a stable outlook by Pengyuan Credit Rating Co Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to our corporate credit rating may adversely affect the market price of the Notes.

***We may not be able to repurchase the Notes upon a change of control.***

We must offer to purchase the Notes upon the occurrence of a change of control, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See “Description of the Notes.” The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control to make purchases of outstanding Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of change of control for purposes of the indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control for purposes of the indenture also includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the properties or our assets taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

***If we are unable to comply with the terms of the indenture or our existing or future debt agreements, there could be a default under those agreements, which could cause repayment of our debt to be accelerated.***

If we are unable to comply with the terms in the indenture or our existing or future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, the indenture contains, and our future debt agreements are likely to contain, cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the indenture. If any of these events occur, our assets and cash flow might not be sufficient to repay in full all of our indebtedness and we might not be able to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

***Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.***

The indenture includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- guarantee indebtedness of restricted subsidiaries;

- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;
- enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

***A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.***

The Notes are a new issue of securities for which there is currently no trading market. Approval in principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. We cannot assure you that we will be able to maintain a listing on the SGX-ST and, even if listed, a liquid trading market might not develop. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

***The liquidity and price of the Notes following the offering may be volatile.***

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our operating income, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

***The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. Accordingly, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of

the Notes under the Indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See “Description of the Notes – Book-Entry; Delivery and Form.”

***There may be less publicly available information about us than is available in certain other jurisdictions.***

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering circular has been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, which might be material to the financial information contained in this offering circular.

***We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries.***

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

***The transfer of the Notes and the guarantees is restricted, which may adversely affect their liquidity and the price at which they may be sold.***

The Notes and the guarantees have not been registered under, and we are not obligated to register the Notes or the guarantees under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act or the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”) and any other applicable laws. See “Plan of Distribution” and “Transfer Restrictions.” We have not agreed to or otherwise undertaken to register the Notes and related guarantees (including by way of an exchange offer) with the SEC or the Monetary Authority of Singapore or the securities regulatory authority of any other jurisdiction, and the issuer has no intention of doing so.

***Certain transactions that constitute “connected transactions” under the Listing Rules will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant.***

Our Shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that a “connected transaction” exceeding the applicable de minimis value thresholds will require certain procedures requirements to be completed or approvals to be obtained. However, the “Limitation on Transactions with Shareholders and Affiliates” covenant set forth in the “Description of the Notes” does not capture transactions between our Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officer’s certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

***We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC resident enterprise and payments of dividends from our PRC subsidiaries to us are not then exempt from PRC withholding tax.***

As described above, we may be treated as a PRC resident enterprise under the EIT Law. See “Risks Relating to Doing Business in the PRC – We and/or our non-PRC subsidiaries may be treated as PRC tax resident enterprises and interest on or in respect of the Notes and gain from the disposition of Notes may be subject to PRC tax.” If we are treated as a PRC resident enterprise under the EIT Law, we would be required to withhold PRC tax on interest payable to certain of our non-resident investors and pay, subject to certain exceptions, additional amounts with respect to such withholding tax. As described in “Description of the Notes – Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in tax law, including the instance where there is a change in the existing official position or there is a stating of an official position that results in our being required to withhold tax due to our being treated as a PRC resident enterprise and dividends from our PRC subsidiaries to us are not then exempt from PRC withholding tax, we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

### **Risks Relating to the Subsidiary Guarantees**

***The guarantees may be challenged under applicable insolvency, fraudulent transfer or similar laws, which could impair the enforceability of the guarantees.***

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the British Virgin Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, Hong Kong and other jurisdictions where future guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

For guarantors incorporated in the British Virgin Islands:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place, and irrespective of insolvency);
- put the beneficiary of the guarantee in a position which, in the event of the guarantor’s insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received no consideration, or received consideration in money or money’s worth that is significantly less than the consideration supplied by the guarantor;
- in the case of the second and third bullet points above, a guarantee will only be voidable if it was entered into at a time when the guarantor was insolvent, or if it became insolvent as a consequence of doing so. Insolvent in this context under the British Virgin Islands law means that the guarantor is unable to pay its debts as they fall due. Additionally, a guarantee will only be vulnerable if it is given within the six month period preceding the commencement of liquidation, or, if the guarantee and beneficiary are connected entities, two years.

For guarantors incorporated in other jurisdictions:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor’s insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of the incurrence of such guarantee;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the guarantors under the guarantees will be limited to the maximum amount that can be guaranteed by the applicable guarantor without rendering the guarantee, as it relates to such guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a guarantee, subordinates such guarantee to other indebtedness of the guarantor, or holds the guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such guarantor, and would solely be creditors of us and any guarantors whose guarantees have not been voided or held unenforceable. In such an event, after providing for all prior claims, there might not be sufficient assets to satisfy the claims of the holders of the Notes.

***Our subsidiary guarantors may not have the funds necessary to satisfy our financial obligations under the Notes.***

None of our current PRC or Indonesian subsidiaries will provide a guarantee for the Notes either upon issuance of the Notes or at any time thereafter. Neither future subsidiaries that are organized under the laws of the PRC nor Exempted Subsidiaries (as defined in Description of the Notes) will provide a guarantee for the Notes at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and such other non-guarantor subsidiaries.

We cannot assure you that the initial guarantors or any subsidiaries that may become guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. In addition, a guarantee required to be provided by a subsidiary under the terms of the Notes may be replaced by a limited-recourse guarantee following the sale or issuance to a third party of a minority interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a limited-recourse guarantee is limited to an amount equal to our proportional interest in the issued share capital of such guarantor multiplied by the fair market value of the total assets in such guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end.

## **USE OF PROCEEDS**

The net proceeds of this offering, after deducting the underwriting discounts and other commissions and other estimated expenses payable in connection with this offering, are estimated to be approximately US\$445 million. We intend to apply the net proceeds from this offering for refinancing certain existing indebtedness, with the remainder for general corporate purposes.

Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes – Definitions”).

## EXCHANGE RATE INFORMATION

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On May 18, 2007, the PBOC enlarged, effective on May 21, 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9% from July 21, 2005 to December 31, 2013. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi to the U.S. dollar depreciated by 4.78% from August 10 to August 27, 2015, and further fluctuated in following months. On November 30, 2015, the executive board of the International Monetary Fund decided to add Renminbi to the basket of currencies with special drawing rights (“SDR”), and thereby expanding the SDR currency basket to five types of currency: the US dollar, euro, Renminbi, yen and British pound. The new SDR currency basket became effective October 1, 2016 and Renminbi weighed approximately 10.92% of the basket.

Although the PRC governmental policies have been introduced in recent years to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration of Foreign Exchange or its branches and other relevant authorities.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

Period	Noon Buying Rate			
	End	Average <sup>(1)</sup>	High	Low
	(RMB per US\$1.00)			
2013 .....	6.0537	6.1412	6.2438	6.0537
2014 .....	6.2046	6.1704	6.2591	6.0402
2015 .....	6.4778	6.2827	6.4896	6.1870
2016 .....	6.9430	6.6388	6.9580	6.4480
2017 .....	6.5063	6.7350	6.9575	6.4773
2018				
January .....	6.2841	6.4233	6.5263	6.2841
February .....	6.3280	6.3183	6.3565	6.3428
March .....	6.2726	6.3174	6.3491	6.2685
April (through April 6) .....	6.3045	6.2960	6.3045	6.2785

(1) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.



## CAPITALIZATION AND INDEBTEDNESS

The table below sets forth our consolidated current borrowings and capitalization as of December 31, 2017, on an adjusted basis to give effect to the issuance of the Notes and receipt of the net proceeds from the offering of the Notes after deducting the underwriting discounts and commissions and other estimated expenses relating to such offering payable by us, but without giving effect to any refinancing of our indebtedness.

You should read this table in conjunction with our consolidated financial statements and the related notes included elsewhere in this offering circular.

	As of December 31, 2017			
	Actual		As Adjusted for the Notes	
	(RMB)	(US\$)	(RMB)	(US\$)
		(in thousands)	(unaudited)	
Total bank borrowings – due within one year . . . . .	9,529,148	1,464,603	9,529,148	1,464,603
Total bank borrowings – due after one year. . . . .	10,509,118	1,615,222	10,509,118	1,615,222
Medium-term debentures and bonds				
– due within one year . . . . .	7,196,185	1,106,033	7,196,185	1,106,033
Medium-term debentures and bonds				
– due after one year. . . . .	36,271,871	5,574,884	36,271,871	5,574,884
Guaranteed Notes . . . . .	1,957,399	300,847	1,957,399	300,847
Notes to be issued . . . . .	–	–	2,927,835	450,000
Convertible bonds – liability component . . . . .	1,095,225	168,333	1,095,225	168,333
Convertible bonds – derivative component . . . . .	991,660	152,415	991,660	152,415
Short-term debentures and notes . . . . .	3,000,000	461,092	3,000,000	461,092
<b>Total debt</b> . . . . .	<b>70,550,606</b>	<b>10,843,429</b>	<b>73,478,441</b>	<b>11,293,429</b>
<b>Equity</b>				
Capital and reserves				
Share capital. . . . .	526,966	80,993	526,966	80,993
Reserves . . . . .	50,706,364	7,793,425	50,706,364	7,793,425
Equity attributable to owners of the Company . . . . .	51,233,330	7,874,418	51,233,330	7,874,418
Non-controlling interests . . . . .	1,983,536	304,864	1,983,536	304,864
Total equity . . . . .	53,216,866	8,179,282	53,216,866	8,179,282
<b>Total capitalization<sup>(1)</sup></b> . . . . .	<b>123,767,472</b>	<b>19,022,711</b>	<b>126,695,307</b>	<b>19,472,711</b>

(1) Total capitalization equals total debt plus total equity.

As of December 31, 2017, our total cash and cash equivalents (excluding restricted cash) amounted to RMB21,925.6 million (US\$3,369.9 million). Our cash and cash equivalents were mainly held in RMB and US dollars, with approximately 98.8% held in RMB and approximately 1.0% held in US dollars.

As of December 31, 2017,

- we had approximately RMB70,550.6 million (US\$10,843.4 million) of consolidated indebtedness outstanding, of which approximately RMB8,916.1 million (US\$1,370.4 million) was secured;
- we had offshore outstanding secured indebtedness in principal amounts totaling approximately US\$370.4 million. See “Description of Other Material Indebtedness Offshore Financing;” and
- our PRC subsidiaries had indebtedness of approximately RMB61,533.5 million (US\$9,457.5 million). In addition, these PRC subsidiaries had capital commitments of approximately RMB1,014.2 million (US\$155.9 million).

Since December 31, 2017, we have continued to enter into short-term and long-term borrowings during our ordinary course of business to finance our operations, including without limitation, the CBI 2018 Facility in an amount up to US\$397.5 million. See “Description of Other Material Indebtedness” for further information.

Except as otherwise disclosed in this offering circular, there has been no material adverse change in our indebtedness or capitalization since December 31, 2017.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth selected consolidated financial information of our Group. We have derived the following selected consolidated financial information from our audited consolidated financial statements for the years ended and as of December 31, 2016 and 2017, all of which are set forth elsewhere in this offering circular. These have been prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions. You should read the summary financial information below in conjunction with our consolidated financial statements. Historical results are not necessarily indicative of results that may be achieved in the future.

### Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2016	2017	2017
	RMB	RMB	US\$
	(in thousands)		
Revenue . . . . .	61,395,578	93,312,652	14,341,892
Cost of sales . . . . .	(47,199,245)	(78,428,941)	(12,054,308)
Gross profit . . . . .	14,196,333	14,883,711	2,287,584
Other income and gains . . . . .	1,019,222	3,945,187	606,364
Share of gains of associates . . . . .	129,012	371,989	57,174
Selling and distribution expenses . . . . .	(164,269)	(269,603)	(41,437)
Administrative expenses . . . . .	(2,080,550)	(2,062,327)	(316,974)
Other expenses . . . . .	(20,063)	(5,676,945)	(872,530)
Financial costs . . . . .	(3,345,896)	(4,080,113)	(627,102)
Changes in fair value of derivative . . . . .	25,987	(19,897)	(3,058)
Disposal of equity in subsidiaries . . . . .	4,561	–	–
Profit before taxation . . . . .	9,764,337	7,092,002	1,090,021
Income tax expense . . . . .	(2,948,667)	(1,785,170)	(274,376)
Profit for the year/period . . . . .	6,815,670	5,306,832	815,645
Profit for the year/period attributable to owners of the Company . . . . .	6,849,829	5,118,566	786,709
Non-controlling interests . . . . .	(34,159)	188,266	28,936
	<u>6,815,670</u>	<u>5,306,832</u>	<u>815,645</u>
Earnings per share			
Basic (RMB) . . . . .	<u>0.96</u>	<u>0.6970</u>	<u>0.107</u>
Diluted (RMB) . . . . .	<u>0.96</u>	<u>0.6966</u>	<u>0.107</u>
<b>Other financial data (unaudited)</b>			
EBITDA <sup>(1)</sup> . . . . .	19,434,503	23,392,943	3,595,429
EBITDA margin <sup>(2)</sup> . . . . .	31.7%	25.1%	25.1%
Total debt <sup>(3)</sup> . . . . .	75,298,309	70,550,606	10,843,430
Net debt <sup>(4)</sup> . . . . .	62,059,121	47,362,449	7,279,475
Total debt/EBITDA . . . . .	3.87	3.02	3.02
Net debt/EBITDA . . . . .	3.19	2.02	2.02
EBITDA/Finance cost . . . . .	5.54	5.69	5.69

Notes:

- (1) EBITDA refers to our profit and comprehensive income for the year before interest income/expense, finance costs, taxation, depreciation and amortization, foreign exchange loss and impairment losses recognised in respect of goodwill, property, plant and equipment. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein

may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See the section entitled “Description of the Notes – Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit and other comprehensive income for the year. We use EBITDA in addition to profit and other comprehensive income for the year because profit and other comprehensive for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization, as well as non-operating and non-recurring items, such as finance costs, foreign exchange losses and impairment loss. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit and other comprehensive income for the year under IFRS to our definition of EBITDA for the periods indicated.

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
		<b>(in thousands)</b>	
Profit and other comprehensive income for the year. . . . .	6,815,670	5,306,832	815,645
Interest income. . . . .	(104,628)	(614,497)	(94,446)
Finance costs. . . . .	3,345,896	4,080,113	627,102
Taxation . . . . .	2,948,667	1,785,170	274,376
Depreciation and amortization. . . . .	5,649,944	7,867,029	1,209,140
Foreign exchange losses (gains). . . . .	778,954	(529,161)	(81,331)
Impairment loss recognised in respect of goodwill. . . . .	–	668,694	102,776
Impairment loss recognised in respect of property, plant and equipment. . . . .	–	4,828,763	742,167
EBITDA . . . . .	19,434,503	23,392,943	3,595,429

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- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
  - (3) Total debt is calculated as the total of short-term and long-term bank and other loans, short-term and medium-term debentures and convertible bonds (including liability and derivative components) and guaranteed notes.
  - (4) Net debt is calculated as total debt minus restricted bank deposits and bank balances and cash.

## Statements of Financial Position

	As of December 31,		
	2016	2017	2017
	RMB	RMB	US\$
	(in thousands)		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment . . . . .	86,658,456	83,985,765	12,908,376
Intangible assets . . . . .	–	13,972	2,147
Prepaid lease payments . . . . .	3,066,503	3,806,787	585,092
Investment properties . . . . .	–	150,931	23,198
Deposit paid for acquisition of property, plant and equipment . . . . .	1,745,089	421,144	64,729
Deposit paid for acquisition of land . . . . .	443,390	14,968	2,301
Deferred tax assets . . . . .	557,322	1,784,856	274,327
Investment in associates . . . . .	944,796	1,325,328	203,699
Goodwill . . . . .	311,769	1,265,763	194,544
Other financial assets . . . . .	14,631	–	–
Available-for-sale investments . . . . .	–	6,000	922
	<u>93,741,956</u>	<u>92,775,514</u>	<u>14,259,335</u>
<b>CURRENT ASSETS</b>			
Prepaid lease payments . . . . .	56,152	85,902	13,203
Inventories . . . . .	17,143,324	15,585,330	2,395,421
Trade receivables . . . . .	363,314	2,211,734	339,937
Bills receivables . . . . .	9,721,942	11,912,479	1,830,914
Prepayments and other receivables . . . . .	8,242,544	12,359,225	1,899,578
Other financial assets . . . . .	13,047	57	9
Restricted bank deposits . . . . .	396,808	1,262,589	194,056
Cash and cash equivalents . . . . .	<u>12,842,380</u>	<u>21,925,568</u>	<u>3,369,898</u>
	<u>48,779,511</u>	<u>65,342,884</u>	<u>10,043,016</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables . . . . .	7,506,386	16,060,100	2,468,394
Other payables and accruals . . . . .	12,603,276	16,343,471	2,511,945
Bank borrowing – due within one year . . . . .	14,310,943	9,529,148	1,464,603
Other financial liabilities . . . . .	1,691	–	–
Income tax payable . . . . .	724,632	1,163,430	178,816
Short-term debentures and notes . . . . .	11,000,000	3,000,000	461,092
Medium-term debentures and bonds – due within one year . . . . .	731,664	7,196,185	1,106,033
Guaranteed notes . . . . .	2,768,436	1,957,399	300,847
Deferred income . . . . .	6,106	15,321	2,355
<b>TOTAL CURRENT LIABILITIES</b> . . . . .	<u>49,653,134</u>	<u>55,265,054</u>	<u>8,494,085</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b> . . . . .	<u>(873,623)</u>	<u>10,077,830</u>	<u>1,548,931</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> . . . . .	<u>92,868,333</u>	<u>102,853,344</u>	<u>15,808,266</u>
<b>CAPITAL AND RESERVES</b>			
Share capital . . . . .	474,057	526,966	80,993
Reserves . . . . .	<u>44,324,255</u>	<u>50,706,364</u>	<u>7,793,425</u>
Equity attributable to owners of the Company . . . . .	44,798,312	51,233,330	7,874,418
Non-controlling interests . . . . .	<u>889,990</u>	<u>1,983,536</u>	<u>304,864</u>
<b>TOTAL EQUITY</b> . . . . .	45,688,302	53,216,866	8,179,282
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year . . . . .	4,696,770	10,509,118	1,615,222
Liability component of convertible bonds . . . . .	–	1,095,225	168,333
Derivatives component of convertible bonds . . . . .	–	991,660	152,415
Deferred tax liabilities . . . . .	578,097	505,125	77,636
Medium-term debentures and bonds – due after one year . . . . .	39,720,060	36,271,871	5,574,882
Guaranteed notes . . . . .	2,070,436	–	–
Deferred income . . . . .	<u>114,668</u>	<u>263,479</u>	<u>40,496</u>
<b>TOTAL NON-CURRENT LIABILITIES</b> . . . . .	<u>47,180,031</u>	<u>49,636,478</u>	<u>7,628,984</u>

## Consolidated Statement of Cash Flows

	<u>For the Year Ended December 31,</u>		
	<u>2016</u>	<u>2017</u>	<u>2017</u>
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
		<b>(in thousands)</b>	
Net cash generated from operating activities . . . . .	12,829,039	32,620,213	5,013,635
Net cash used in investing activities . . . . .	(29,248,825)	(19,587,836)	(3,010,595)
Net cash generated from financing activities . . . . .	20,589,010	(3,934,760)	(604,762)
Net increase in cash and cash equivalents . . . . .	4,169,224	9,097,617	1,398,278

## INDUSTRY OVERVIEW

*Certain information and statistics set out in this section have been extracted from various government publications, market data providers and other independent third party sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us or any other party involved in the offering of the Notes and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon.*

### Overview

The aluminum industry is the world's second largest metals industry, after steel. The global consumption of primary aluminum in the year of 2017 was approximately 64.4 million tons according to Antaika representing an increase of approximately 5.7% from the previous year. Primary aluminum is made from alumina (which is typically made from bauxite). Primary aluminum is processed into various fabricated products, such as rolled sheet, coil and plate, extruded bars and sections, wire-rod, castings and forgings.

Aluminum has a relatively short history as an industrial metal. Its widespread use only became viable in the late 19th century, with the discovery of the Hall-Heroult process for the electrolytic smelting of aluminum, and the Bayer process for the production of alumina. Both processes are still in use today as the main (indeed almost exclusive) processes for producing aluminum and alumina.

Aluminum is an abundant element in nature, and its principal commercial ore is bauxite. Bauxite is largely found in tropical areas of the world, with the main global reserves located in Guinea, Australia, Brazil, Vietnam and Jamaica. From bauxite, aluminum is produced in two stages. Bauxite is processed in an alumina refinery to produce alumina ( $Al_2O_3$ ), an oxide of aluminum. Other than being used to produce alumina, bauxite can be used to produce alumina cement, refractory materials, or be used in casting. Alumina is then processed into primary aluminum in an electrolytic smelter. There are two smelting technologies involved in the electrolytic process commonly used to produce primary aluminum: the "Söderberg" or "self-baking" technology and the "pre-baked" technology. According to Antaika, all production facilities using the "Söderberg" or "self-baking" technology have been eliminated in the PRC, due to its higher electricity consumption and pollutive emissions compared to the "pre-baked" technology. Aluminum produced through smelting is called primary aluminum and aluminum produced by refining waste aluminum products is called secondary aluminum. As an industry standard, primary aluminum includes pure aluminum and aluminum alloy. Primary aluminum products are categorized as upstream aluminum products in this offering circular. Our products primary include molten aluminum alloy, aluminum alloy ingots and aluminum processed products.

Aluminum and aluminum alloys have a broad range of end-uses. Currently, the main uses of aluminum and aluminum alloys include construction (windows, doors, cladding, façades), transport (in road vehicles, aircraft, railcars and marine uses), electrical (cable and wire), consumer durables, and others.

### Global Aluminum Industry

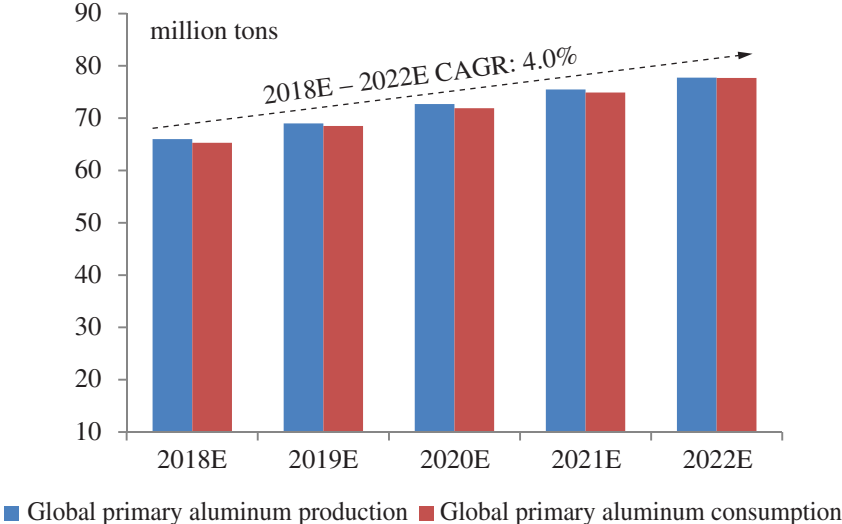
With broad end-use markets, aluminum consumption has been particularly linked to GDP growth.

From 2011 to 2017, worldwide consumption of primary aluminum grew at a CAGR of 5.9%, mainly driven by strong demand from emerging markets, partially from China, Russia, India and Brazil. Growth of global primary aluminum consumption continued to rise by 5.7% in 2017.

China's rapid economic development has greatly boosted the consumption of primary aluminum. In 2005, China started to surpass the United States as the world's largest consumer of primary aluminum. By 2017, China's primary aluminum consumption has accounted for 55.0% of the global consumption.

In 2017, the consumption of primary aluminum outside China maintained steady. According to Antaïke, overseas consumption of primary aluminum in 2017 was 29.0 million tons, increased by 3.2% over the previous year, representing 45% of the world's total primary aluminum consumption; in 2017, the global consumption of primary aluminum was 64.4 million tons with an annual growth of 5.7%.

Antaïke forecasts that primary aluminum consumption between 2018 and 2022 will grow at a CAGR of 4.0% globally (as the following chart shows).

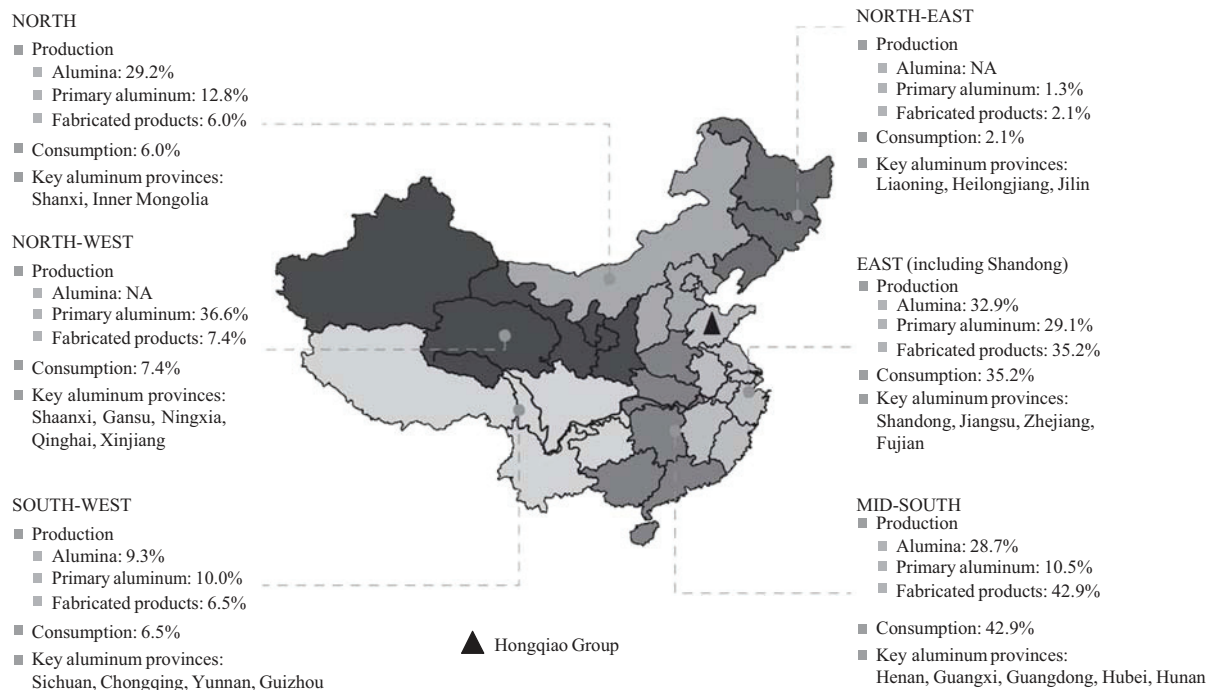


Source: Antaïke

## PRC ALUMINUM INDUSTRY

### *Geographical Distribution of Aluminum Production and Consumption in China*

The map below shows the geographical distribution of aluminum production and consumption in China for 2017 (as percentages of total production, consumption, and downstream fabricated products produced in China):



Source: Antaike

Notes: Definition of the regions is provided by Antaike as follow:

- East region – Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi, Fujian and Shanghai
- North-east region – Heilongjiang, Jilin and Liaoning
- Mid-south region – Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan
- South-west region – Sichuan, Yunnan, Guizhou, Chongqing and Tibet
- North-west region – Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang
- North region – Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia

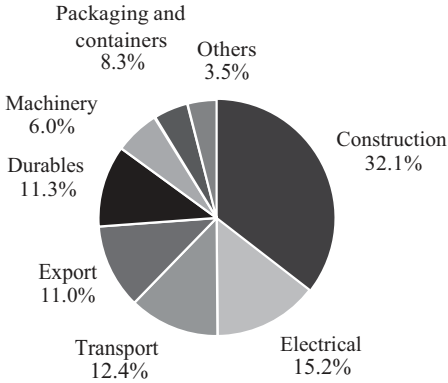
As of December 31, 2017, Chinese aluminum manufacturers are distributed across 21 provinces in China. East China region, including Shandong Province, where our production facilities are located, is the second largest aluminum consuming region in China, representing 35.2% of the country's aluminum consumption for 2017. Within this region, the Yangtze River Delta is one of the most important and developed economic and manufacturing center in China.

### ***Strong domestic demand***

Aluminum consumption in China has experienced rapid growth in the last two decades due to strong and continuous economic growth. According to the National Bureau of Statistics of China, China's gross domestic product expanded at a CAGR of approximately 13.4%, from RMB16,184.0 billion in 2004 to RMB82,712.2 billion in 2017. Although China's rate of economic growth has slowed compared to previous years, Antaike believes it is probable that China's gross domestic product will still grow at an annual rate between 5% and 7% between 2018 and 2022. During the same period, Antaike expects China's demand for aluminum to continue increasing.



China has been a key driver of the global aluminum industry over the past decade, and has surpassed the United States as the largest aluminum consumer globally since 2005. In the year of 2017, China consumed approximately 35.4 million tons of primary aluminum, representing 55.0% of world total consumption. This ratio is expected to reach 56.6% by 2022, according to Antaika. The chart below shows the breakdown of domestic aluminum consumption by end-use in China in the year of 2017.



Source: Antaika

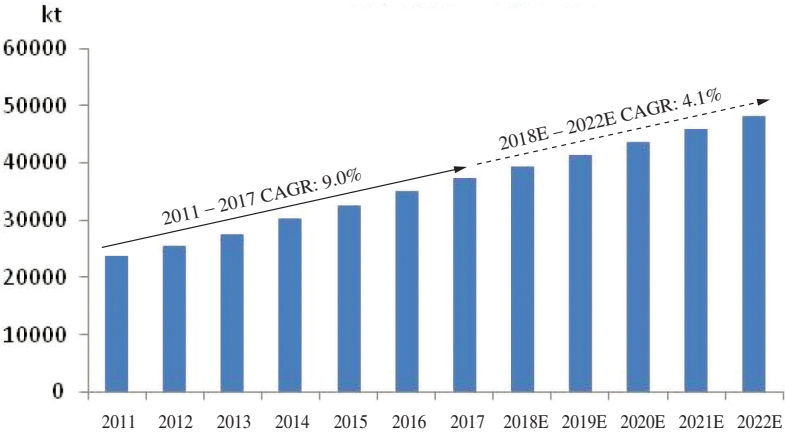
The table below sets forth an overview of the aluminum consumption in China and the United States, Japan, Germany and Canada in the year of 2017.

**Aluminum consumption data in 2017**

Country	Total Aluminum Consumption (ten thousand tons)	Per Capita Aluminum Consumption (kg)	Per Capita GDP (US\$)
United States . . . . .	544	16.8	60,015
Japan . . . . .	212	16.7	34,486
Germany . . . . .	228	28.6	43,794
Canada . . . . .	48	13.4	46,172
<b>China . . . . .</b>	<b>3,540</b>	<b>25.2</b>	<b>9,482</b>

Source: World Economics and Antaika

Primary aluminum can be processed into various downstream fabricated products including flat-rolled products (plates, sheets, strips and foils), extrusion products (tubes, bars and profiles), wire-rod, castings and forgings. As the chart below shows, total production of fabricated aluminum products in China increased rapidly at a CAGR of 9.0% from 2011 to 2017, and is expected to grow at a CAGR of 4.1% from 2018 to 2022, which will support the future growth of demand for fabricated aluminum products in China.



Source: Antaika

In particular, there are significant growth potentials in the industries of construction and automotives in China.

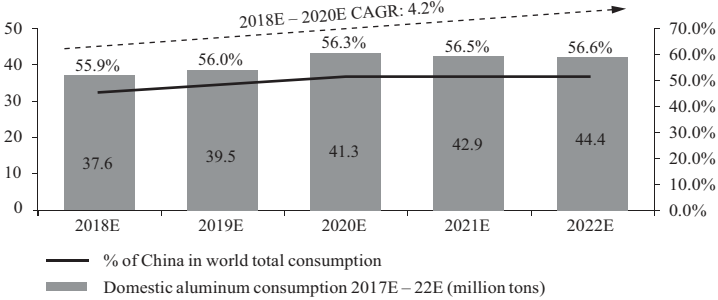
*Construction*

Aluminum products are widely used in windows, doors, cladding and facades in the construction sector. According to the National Bureau of Statistics of China, the total investment in fixed assets in China grew from approximately RMB22,459.9 billion in 2009 to approximately RMB63,168.4 billion in 2017, representing a CAGR of 13.8%. The growth momentum is expected to continue with overall economic growth and growing urbanization, as well as increases in disposable income per capita in China. According to Antaika, over 350 million additional population in China will be domiciled in urbanized areas by 2025. Combined with the structural change of consumer spending behavior, this will support China’s aluminum demand growth in the long term.

*Automotives*

The strong economic growth, improving road transportation infrastructure and the enhanced consumer purchasing power have been driving up demand for automotives in China. Total vehicle ownership in China grew at a CAGR of 14.0% from 2009 to 2017, according to Ministry of Transport and China surpassed the United States to become the world’s largest auto producer in 2009. However, China’s car ownership on a per capita basis of 156 per thousand people as of the end of 2017 was still much lower compared to the developed countries. Furthermore, higher energy prices and more stringent regulation on carbon emissions will encourage a more extensive use of lightweight metals, such as aluminum, as a substitute for steel in the automotive sector. Antaika estimates the aluminum usage in China is currently less than 100 kg per vehicle, as compared to 145 kg in the developed nations. Antaika further estimates the per vehicle aluminum usage in China to increase to 125 kg by 2022. Taken together with the growing vehicle production, it is expected to further drive growth in aluminum demand in China.

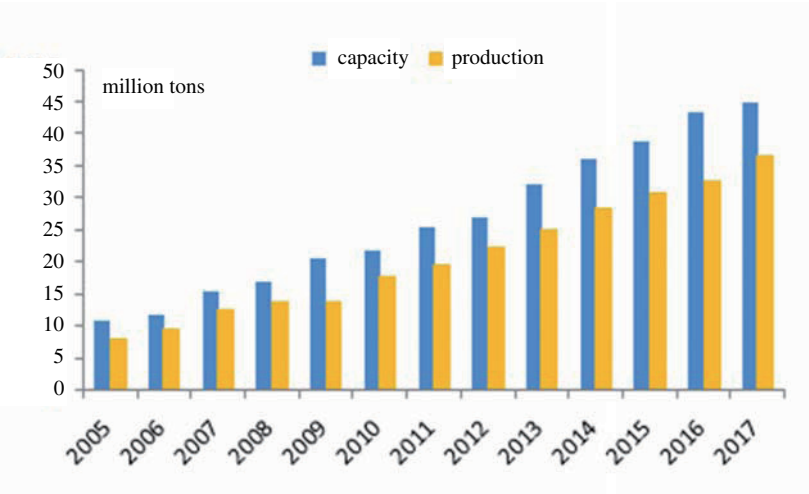
Antaika estimates that China’s primary aluminum consumption will grow at a CAGR of 4.2% from 37.6 million tons in 2018 to 44.4 million tons in 2022, as shown in the chart below.



Source: Antaika

**Growing domestic production**

In 2001, China became the largest aluminum manufacturer in the world, surpassing the United States and Russia. Domestic production increased at a CAGR of 10.5% from 22.3 million tons in 2012 to 36.7 million tons in 2017, compared to the CAGR of 5.9% globally during the same period, while China’s share of global aluminum output rose from 46.5% to 57.4% during the same period, according to Antaika. The rapid growth of aluminum production is mainly driven by domestic consumption, government support and the application of advanced technology. The chart below shows the primary aluminum output and the production capacity in China from 2005 to 2017.



Source: Antaika

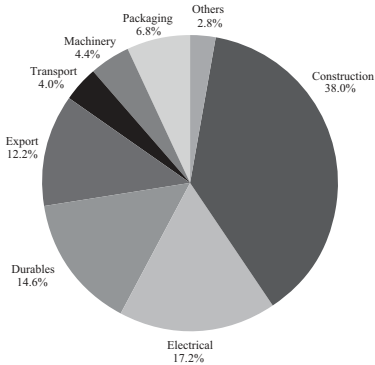
There has also been a sector trend of increasing scale in terms of production capacity and smelter power consumption in the PRC aluminum industry. Average annual production capacity per aluminum manufacturer in China increased significantly from approximately 267,800 tons in 2012 to approximately 0.5 million tons in 2017. Meanwhile, capacity associated with over 300 kA smelters accounted for approximately 83.3% of total domestic aluminum capacity as of December 31, 2017.

**Overview of domestic downstream fabrication sector**

Aluminum is further processed into aluminum fabrication products through reheating, molding, casting, cutting, extruding and shaping processes. China has been both the largest consumer and manufacturer of aluminum fabricated products in the world since 2005 and 2001, respectively, according to Antaika.

Aluminum flat-rolled products and aluminum extraction products are the two key segments in the PRC downstream fabrication sector accounting for approximately 87% of total aluminum fabrication production, according to Antaika.

In 2017, China consumed approximately 34.4 million tons of aluminum fabricated products, according to Antaika. The chart below shows the breakdown of domestic aluminum fabricated product consumption by end-use in 2017. The main users of aluminum fabricated products are from the construction, electrical, durables and packaging.



Source: Antaika

Although transportation and packaging only account for a small share (accounting for 4.0% and 6.8% of current fabricated aluminum product consumption in the PRC, respectively) in 2017, we believe they represent two of the key drivers of future demand growth for aluminum fabricated products, given the significant growth potentials in tin cans, food packaging, automotives and urban subway in China. Antaika estimates that China’s aluminum fabricated product consumption will grow steadily at a CAGR of 4.4% from 2018 to 2023.

**Aluminum Price**

*Historical price overview*

Aluminum price has experienced significant fluctuations in the recent past. The following chart shows aluminum 3-month London Metal Exchange, or the LME, price and 3-month Shanghai Futures Exchange, or the SHEF, price from January 2010 to December 2017.



Source: Wind Info.

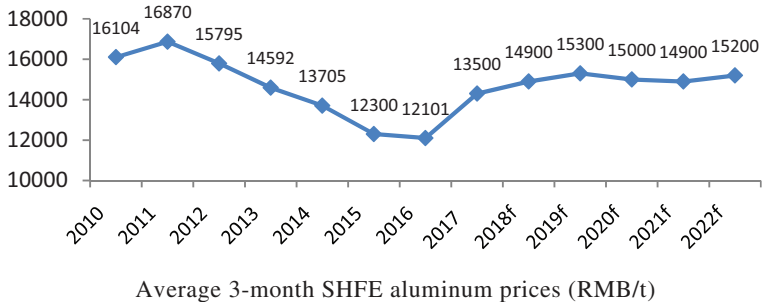
Following significant decreases in much of 2015, in 2016 the global aluminum price fluctuated but showed a general increasing trend. The aluminum price on the LME increased from approximately US\$1,480 per ton in January 2016 to approximately US\$1,722 per ton at the end of December 2016 while the average three-month aluminum futures price decreased by approximately 4.6% from approximately US\$1,682 per ton to approximately US\$1,605 per ton as compared with 2015.

The overall domestic aluminum futures price trend also increased. However, due to the low levels at which prices began at the beginning of the year, average prices were still down as compared with the previous year. In 2016, the LME spot and 3-month future price averaged US\$1,604 per ton and US\$1,605 per ton, representing a decrease of 3.6% and 4.6% respectively from 2015. During the same period, SHFE spot and 3-month future price averaged RMB12,261 and RMB12,101, representing a decrease of 0.1% and 1.6% respectively from 2015 levels.

In 2017, aluminum prices rose steadily. The LME spot and 3-month future price averaged US\$1,968 per ton and US\$1,979 per ton, representing an increase of 22.7% and 23.3% respectively from 2016. During the same period, SHFE spot and 3-month future price averaged RMB14,495 and RMB14,664 per ton (including VAT for both), representing an increase of 18.2% and 21.2% respectively from 2016.

**Price outlook**

The chart below illustrates the historical and forecast average 3-month SHFE aluminum prices provided by Antaika.



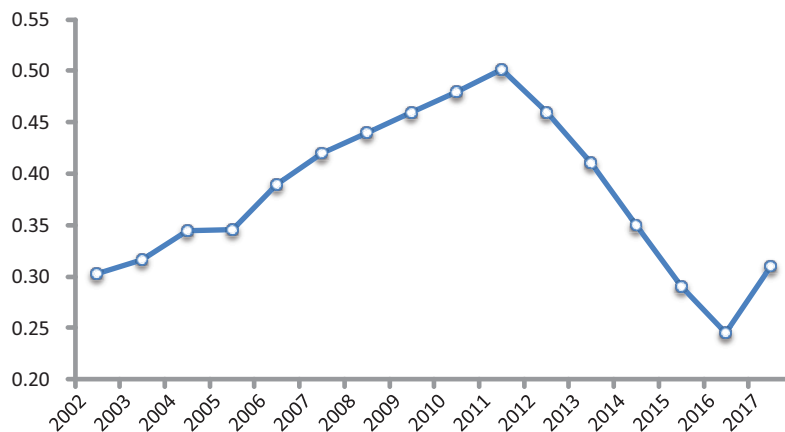
Source: Antaika

**Cost Overview**

Competition in the aluminum industry is principally based on costs. The main costs of converting alumina into aluminum are electricity, alumina, processing, labor, and carbon anode blocks, among which electricity and alumina were the two largest causes for variation in production costs among aluminum manufacturers. Therefore, the main competitive advantage in the aluminum industry are access to stable supply and sustainable low cost of electricity and alumina.

### **Electricity cost**

Electricity costs vary across different regions and aluminum manufacturers in China. The industry average unit electricity cost increased steadily from 2002 to 2011. However, electricity costs decreased in 2012 to 2016, due to decreases in coal prices and increased capacity of aluminum manufacturers to generate electricity in-house. In the year of 2017, the average unit electricity cost was RMB0.31/kWh, representing an increase of 22.7% from 2016.

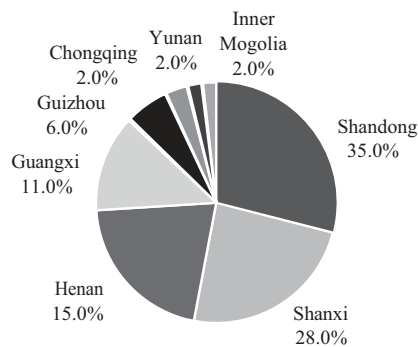


Source: Antaike

With the rapid growth of aluminum smelting capacity in China, electricity supply to this sector has been tight. The electricity used in aluminum production accounted for 32% of China's total electricity output in 2017, as compared to that of 44% in 2010. Therefore, according to Antaike, the aluminum manufacturers with capacity to generate electricity in-house can enjoy secure stable supply and lower cost of electricity compared to those purchasing electricity externally. In 2017, a total of 37 aluminum manufacturers in China operated captive power plants. The aluminum production capacity of these manufacturers represents approximately 70.8% of total aluminum production capacity in China. The price of electricity is affected by the price of coal. According to Antaike, the average price of mix-quality coal quoted by Qinhuangdao Shanxi quality index was RMB477 per ton and RMB638 per ton for 2016 and 2017, respectively.

### Alumina cost

Alumina is another major cost to aluminum production. According to Antaike, China had total annual alumina production capacity of 81.3 million tons at December 31, 2017. The actual alumina domestic production was 70.4 million tons in 2017. The major are located in the Shandong, Henan, Shanxi and Guangxi provinces, among which Shandong, Shanxi and Henan are China's largest alumina producing provinces, representing 35.0%, 28.0% and 15.0% of China's total capacity in the year of 2017, respectively. The geographical distribution of the alumina production capacity is shown in the chart below.



Source: Antaike

According to Antaike, the average prices of alumina produced domestically in China were RMB2,079 per ton and RMB2,904 per ton for 2016 and 2017, respectively, and the average import price of alumina in China was US\$253.8 per ton and US\$353.0 per ton during the same periods.

### Competitive Landscape

As of December 31, 2017, there were a total of 91 aluminum manufacturers in China, according to Antaike. They are located in 29 provinces, with Shandong, Xinjiang and Inner Mongolia as the three largest producing provinces, accounting for 27.5%, 17.0% and 10.9% of domestic capacity as of December 31, 2017, respectively. The following chart sets forth the top ten aluminum manufacturers in China in terms of aggregate annual aluminum production capacity as of December 31, 2017 based on a report issued by Antaike, according to which we were the first largest aluminum manufacturer.

#### Top ten aluminum manufacturers in China

Rank	Company	Designed annual production capacity as of December 31, 2017 (thousand tons per annum)	Nature of Ownership
1	China Hongqiao Group Limited (our Group)	6,460	Private
2	Group 1	4,860	State-owned
3	Group 2	4,170	Private
4	Group 3	2,560	Private
5	Group 4	2,490	State-owned
6	Group 5	1,720	State-owned
7	Group 6	1,550	Private
8	Group 7	1,640	State-owned
9	Group 8	1,450	State-owned
10	Group 9	1,160	State-owned
<b>Total (% of China)</b>		<b>28,060 (62.5%)</b>	

Source: Antaike

As of December 31, 2017, these ten manufacturers had aggregate designed annual production capacity of approximately 28.0 million tons and accounted for an aggregate of approximately 62.5% of China's domestic capacity. The table below shows the breakdown of aluminum manufacturers by production capacity as of December 31, 2017.

**Breakdown of aluminum manufacturers by designed capacity (as of December 31, 2017)**

<b>Designed Annual Production Capacity</b>	<b>Number of Companies</b>	<b>% of Total Capacity in China</b>
<b>(thousand tons per annum)</b>		
200 or above .....	57	92.3
300 or above .....	46	86.8
400 or above .....	31	75.7
500 or above .....	25	70.1

Source: Antaika

In May 2009, the Non-ferrous Metals Industrial Restructuring and Revitalization Plan (有色金屬產業調整和振興規劃) was issued by the State Council as part of a national initiative to strengthen and streamline the development of the aluminum industry for the period from 2009 to 2011. The plan imposed strict restrictions on expansion of electrolytic aluminum capacity, pursuant to which no further construction or expansion of electrolytic aluminum smelting capacity shall be approved from 2009 to 2011. Furthermore, according to the Notice to Further Strengthen the Elimination of Smaller Capacities (關於進一步加強淘汰落後產能工作的通知) issued by the State Council in February 2010, all production capacity with electrolytic aluminum smelter working current intensity of 100 kA and below was required to be phased out by the end of 2011.

The PRC governmental authorities have promulgated a series of policies on the aluminum industry recently, including the Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Some Industries through Financial Services (關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見) promulgated on December 22, 2009 by the People's Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission, or the Policies. The Policies are aimed at restricting the investment in industries with excess production capacity, including production of electrolytic aluminum. In 2011, the PRC government increased twice the electricity tariff, which increased the cost of aluminum producers that purchased on-grid electricity. Our Group was not impacted by these increases.

In April 2017, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology, the Ministry of Land and Resources and the Ministry of Environmental Protection jointly issued the Notice of Specific Action Working Plans Regarding Regulating Unlawful Electrolytic Aluminum Projects\* (《清理整頓電解鋁行業違法違規項目專項行動工作方案的通知》), which was aimed at regulating unlawful electrolytic aluminum projects. The issuance of such policy manifests continuing promotion of the reform of the supply-side and healthy and stable development of Chinese aluminum industry by the PRC government. As a result of these policies, our Group was required to reduce our production scale by shutting down electricity aluminum projects with production capacity of 2.68 million tons. Such reduction could negatively affect our revenue and net profits. See "Risk Factors – Risks Relating to Our Industry – Changes in laws, regulations or enforcement policies in China could adversely affect our business". However, in the long run, we believe that, the reform of the supply-side in the aluminum industry will promote healthy and sustainable development of the industry and help support increase of aluminum prices, which would have a positive effect on the cash flow of our Group, and contribute to enhancing our profitability.



### Competition in the Aluminum Fabrication Products Segments

Precise aluminum products are advanced aluminum fabrication products, mainly including aluminum cans; high-grade aluminum foil and other high-grade aluminum flat-rolled products, and seamless pipes and other aluminum extrusion products. According to Antaike, there were approximately 280 aluminum sheets and cords manufacturers and 160 aluminum foils manufacturers in China as of December 31, 2017, with total production capacities of 14.8 million and 4.9 million tons per annum, respectively. The two tables below list out the top five aluminum sheets and cords manufacturers and top five aluminum foils manufacturers in China.

#### Top five aluminum sheet and cord manufacturers in China

Company	Designed capacity as of December 31, 2017	Nature
	(thousand tons per annum)	
Group 1 . . . . .	1,200	Private
Group 2 . . . . .	650	Private
Group 3 . . . . .	600	Private
Group 4 . . . . .	600	Private
Group 5 . . . . .	400	Private
<b>Total (% of China)</b> . . . . .	<b>3,850 (26%)</b>	

Source: Antaike

#### Top five aluminum foil manufacturers in China

Company	Designed capacity as of December 31, 2017	Nature
	(thousand tons per annum)	
Group 1 . . . . .	370	Private
Group 2 . . . . .	200	Private
Group 3 . . . . .	160	Private
Group 4 . . . . .	120	Private
Group 5 . . . . .	80	Private
<b>Total (% of China)</b> . . . . .	<b>930 (19%)</b>	

Source: Antaike

For aluminum extrusion products, as of December 31, 2017, there were approximately 950 manufacturers in China with a total production capacity of 27.5 million tons per annum, according to Antaika. The table below lists out the top six aluminum extrusion product companies in China.

#### Top six aluminum extrusion product manufacturers in China

<b>Company</b>	<b>Designed capacity as of December 31, 2017</b>	<b>Nature</b>
	<b>(thousand tons per annum)</b>	
Group 1 .....	810	Private
Group 2 .....	520	Private
Group 3 .....	520	Private
Group 4 .....	500	Private
Group 5 .....	450	Private
Group 6 .....	450	Private
<b>Total (% of China)</b> .....	<b>3,250 (11.8%)</b>	

*Source: Antaika*

We understand that there are a number of barriers to enter into the aluminum industry, such as substantial capital expenditure requirement, time required to construct aluminum smelters, availability of low-cost energy supplies and raw materials, government restrictions on expanding aluminum smelting capacity, time and efforts to establish relationship with downstream customers and proximity to end-use markets.

#### **Overview of Shandong Aluminum Industry and Molten Aluminum Alloy**

##### *Shandong Aluminum industry*

Shandong Province, located on China's eastern coast, is one of the most important regions of the Chinese aluminum industry. As of December 31, 2017, it had a designed primary aluminum production capacity of approximately 9.1 million tons, which made it the largest aluminum production base in China, accounting for approximately 22.9% of total domestic capacity. In addition, Shandong Province is China's largest alumina supply base, with an annual capacity of approximately 28.4 million tons for 2017, accounting for 35% of domestic alumina capacity.

Shandong Province is also China's largest manufacturing base of downstream aluminum fabricated products, and manufactured approximately 10.7 million tons, or 18.3% of China's total production for 2017.

As of December 31, 2017, there were five aluminum manufacturers in Shandong Province. The three largest manufacturers accounted for approximately 94.1% of total designed annual production capacity in Shandong Province. The table below sets forth the top five aluminum manufacturers in Shandong Province by designed annual production capacity.

### Top five aluminum manufacturers in Shandong Province

Company	Designed annual production capacity as of December 31, 2017 (thousand tons)
<b>China Hongqiao Group Limited (our Group)</b> .....	6,460
Shandong Group 1 <sup>(1)</sup> .....	2,110
Shandong Group 2 .....	816
Shandong Group 3 .....	200
Shandong Group 4 .....	140
<b>Total (as a % of total Shandong Province)</b> .....	<b>9,726 (100%)</b>

Source: Antaike

- (1) Shandong Group 1 also has a production capacity of 2,060,000 tons per annum outside Shandong Province. Its total capacity is 4,170,000 tons per annum and is referred to as Group 2 in the table headed “Top ten aluminum manufacturers in China” under “Industry Overview – Competition Landscape.”

Our primary production facilities are strategically located in Zouping County, one of the main aluminum production bases in Shandong Province. There are two aluminum manufacturers in Zouping County, Zouping Aluminum Co., Ltd. and us, with a total designed annual production capacity of 6,600,000 tons per annum as of December 31, 2017, according to Antaike. We represented approximately 66.4% and 97.9% of total designed annual production capacity in Shandong Province and Zouping County, respectively, as of December 31, 2017 according to Antaike.

#### *Overview of molten aluminum alloy*

Molten aluminum alloy refers to a red and yellow hot liquid, in which aluminum is the predominant metal, while combined with copper, zinc, manganese, silicon, magnesium or other materials. It is an important material for fabricating aluminum products and is directly transported to the nearby manufacturing site for further processing. As the temperature needs to be maintained at 750°C to 900°C level to keep it in liquid form during delivery, Antaike estimates that safe delivery distance for molten aluminum alloy is within 30 kilometers. Compared to aluminum ingots, molten aluminum alloy has a number of key benefits:

#### *Reduction of energy consumption and waste gas emission*

Because there is no need to mold or re-smelt molten aluminum alloy before it is processed into downstream aluminum products, it offers significant savings of energy and electricity. It also benefits the overall environment through reducing the emission of carbon dioxide and waste gas during the re-melting process.

#### *Cost saving*

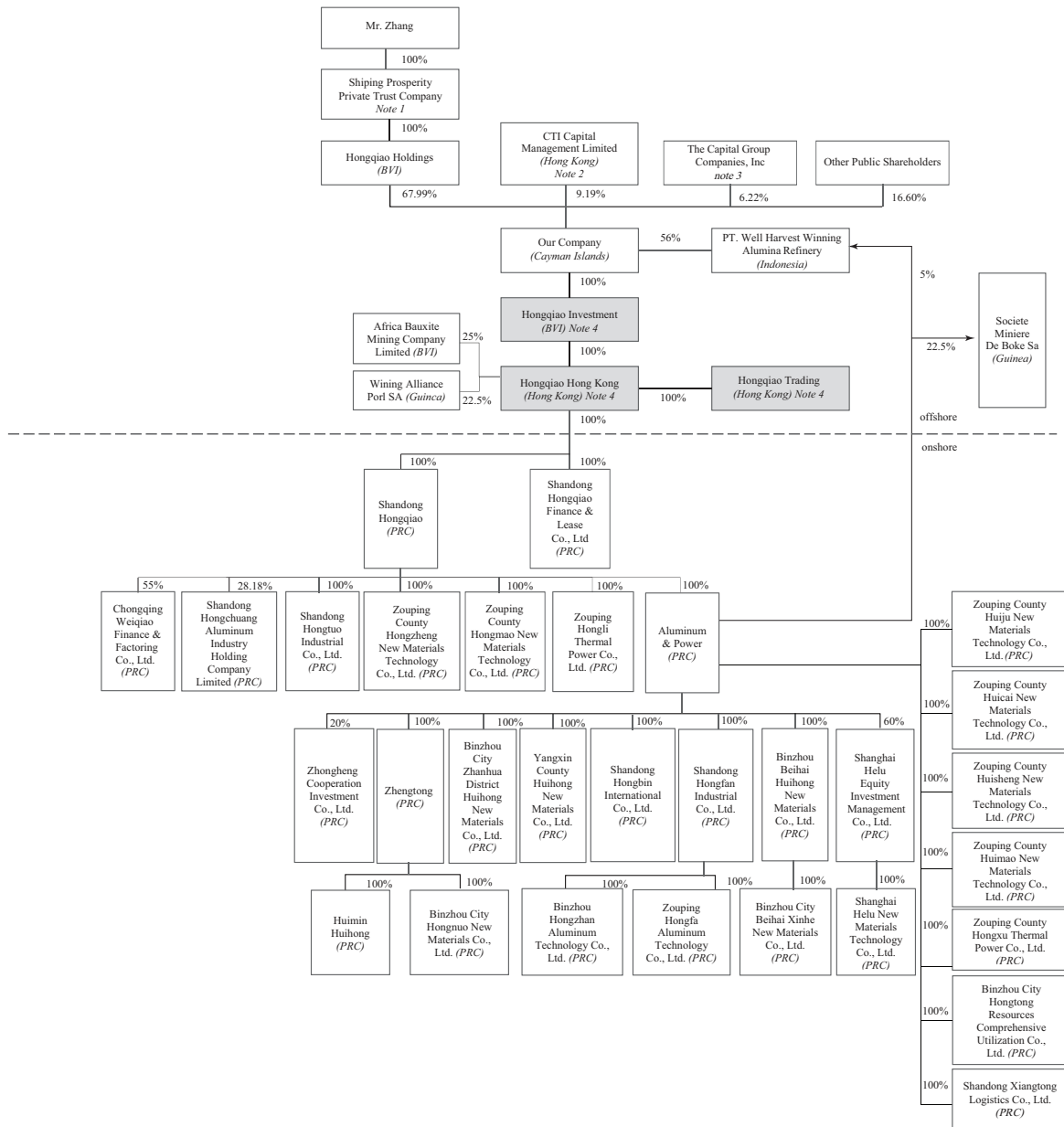
Molten aluminum alloy saves molding costs, and associated energy, labor, storage and other relevant costs for producers. Customers also benefit from saving the energy cost of melting aluminum alloy ingots for further processing, as well as labor and storage costs. Antaike estimates the overall cost benefits for customers to be approximately RMB500 per ton.

*Molten aluminum alloy supply and demand in the Zouping region*

Antaike expects the annual production capacity of downstream customers in the Zouping region to grow from 4.7 million tons as of 2018 to 5.4 million tons as of 2023, and annual demand for primary aluminum in the Zouping region to grow from 2.8 million tons in 2018 to 3.2 million tons in 2023. Antaike expects these growth and greater acceptance of molten aluminum to cause demand for molten aluminum to further increase. Antaike expects annual consumption for molten aluminum to grow from 2.6 million tons in 2018 to 2.9 million tons in 2023, representing a CAGR of 3.6%. Furthermore, Antaike expects that over 91% of the demand for aluminum in 2023 in the Zouping region will be met by molten aluminum. According to Antaike, the Group's molten aluminum production capacity accounted for 97.7% of the total molten aluminum production capacity in Zouping as of December 31, 2017.

## CORPORATE STRUCTURE

The chart below sets forth our corporate structure as of the date of the offering circular.



Note 1. Shipping Prosperity Private Trust Company (previously known as Prosperity Eastern Limited) holds its shares in Hongqiao Holdings in trust for Mr. Zhang. Mr. Zhang is the beneficiary under such trust.

Note 2. CIT Capital Management is an indirectly wholly-owned subsidiary of CITIC Limited.

Note 3. Such shares were held by Capital Research and Management Company, a wholly owned subsidiary of The Capital Group Companies, Inc.

Note 4. Entities shaded in grey will be the Subsidiary Guarantors of the Notes.

## BUSINESS

### OVERVIEW

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. As of December 31, 2017, we were one of the largest aluminum manufacturers in China in terms of production capacity according to Antaike. We have vertically integrated operations that cover the entire aluminum industry value chain consisting of production facilities for alumina, molten aluminum alloy and aluminum alloy ingots, aluminum fabrication production facilities, as well as self-supporting power generation facilities.

We believe that we enjoy sustainable profitability because of our vertically integrated business model, our cost advantages and high operational efficiency and centralized procurement of raw materials and local electricity supply. We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes raw material suppliers and local down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. All of our aluminum manufacturing bases are in close geographic proximity to each other and are connected by our in-house power supply grid. We are connected to other major production bases of downstream aluminum fabrication products, such as Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province, through developed transportation networks.

We currently have eight manufacturing bases in Zouping, Zhanhua District, Beihai New District, Weiqiao, Binzhou, Boxing, Yangxin and Huimin, respectively. Our annual production capacity of aluminum products was approximately 7.436 million tons as of December 31, 2016 with utilization rates of approximately 96.5% for the year then ended. In the second half of 2017, as a result of an action plan implemented by relevant government authorities to reform the supply-side aluminum industry and to limit coal consumption, we decreased our annual production capacity by shutting down certain aluminum production facilities and ancillary facilities with an annual aluminum production capacity of 2.68 million tons. As of December 31, 2017, we had an annual production capacity of approximately 6.46 million tons (inclusive of newly installed production capacity of approximately 1.70 million tons), and our utilization rate for 2017 was approximately 94.9%.

### *Our Products*

Our aluminum products mainly consist of molten aluminum alloy, aluminum alloy ingots, and aluminum fabrication products. Our aluminum products are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. We sold approximately 5.7 million tons and 7.5 million tons of aluminum products and generated revenue of approximately RMB61,350.0 million and RMB93,138.0 million (US\$14,315.0 million) for the years ended December 31, 2016 and 2017, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 87.7% and 81.4% of our revenue derived from aluminum products for the years ended December 31, 2016 and 2017, respectively. Compared with the production of aluminum alloy ingots, the production of molten aluminum alloy allows us to avoid incurring significant molding and other relevant costs. We are able to provide our customers with molten aluminum alloy due to our close proximity to them, which, we believe, provides us with significant cost and operational advantages and results in other synergies. All of our aluminum alloy ingots are produced with self-manufactured molten aluminum alloy. We also manufacture and sell aluminum fabrication products.

### *Our Main Cost Items*

Our two main cost items in the production of aluminum are alumina and electricity. Each of these items accounted for more than 30% of our total cost of sales in the two years ended December 31, 2016 and 2017.

We benefit from arrangements in relation to the key inputs into our aluminum products. These primarily include (i) cost advantages from the in-house production of a significant portion of the alumina we use, (ii) favorable pricing resulting from alumina purchased in bulk, (iii) cost advantages from the production of a significant amount of the electricity that we use for the production of our aluminum products at our thermal power stations, (iv) our in-house power grid connecting our eight manufacturing bases and (v) cost advantages from purchasing off-grid electricity directly supplied.

Our in-house alumina plants commenced production in 2012. In 2016 and 2017, we produced 73.4% and 85.7%, respectively, of the alumina we used in our production of aluminum products at our in-house alumina plants. As of December 31, 2017, we had an aggregate annual production capacity of 14.0 million tons of alumina. We produced alumina at a cost below the purchase price of alumina that we purchase externally. The remainder of our required alumina were mainly purchased from a supplier from whom, due to our long-term commitment, bulk purchase, self-pick-up arrangement and deposit, we have been able to purchase alumina from at prices below average market price.

In 2016 and 2017, we produced 84.6% and 73.8%, respectively, of the electricity we used in our production of aluminum products at our thermal power stations. As of December 31, 2017, our power station had an aggregate installed capacity of 12,295 MW. We produced this electricity at a cost below the purchase price of electricity that we purchase externally. The remainder of our required electricity was purchased from a supplier pursuant to a direct power supply agreement and delivered via our in-house power grid. Due to our off-grid structure, bulk purchases and long-term cooperation, we have been able to purchase our electricity from our supplier at a price below average on-grid electricity price.

The following tables set forth our source of supply (internal and external) of alumina and electricity in China for the periods indicated:

	For the year ended December 31,	
	2016	2017
<b>Alumina</b>		
<b>Total Alumina consumed (million tons)</b> . . . . .	12.17	14.46
Self-produced (million tons) . . . . .	8.93	12.39
External purchase (million tons) . . . . .	3.23	2.07
Self-sufficiency rate . . . . .	73.4%	85.7%
<b>Electricity</b>		
<b>Total electricity consumed (million KWh)</b> . . . . .	86,168	108,822
Self-produced (million KWh) . . . . .	72,888	80,285
External purchase (million KWh) . . . . .	13,280	28,537
Self-sufficiency rate . . . . .	84.6%	73.8%

***Our Customers***

We sell most of our aluminum products to domestic customers, who are located mainly in Shandong Province as well as in other regions of China. Our customers include (i) downstream aluminum fabrication product manufacturers, who process our aluminum alloy products into aluminum fabrication products, such as aluminum plates, aluminum wire and wheel hubs, and (ii) traders, who in turn resell our aluminum products to downstream aluminum fabrication product manufacturers or other traders. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well-known traders. As of December 31, 2017, all of our molten aluminum alloy customers were located within 30 kilometers from us.

Our five largest customers, all of which were independent third parties of our Group, accounted for approximately 64.2% and 66.0% of our revenue for 2016 and 2017, respectively. Our history of relationship with our top customers range from five to twelve years.

Our largest customer accounted for approximately 45.0% and 48.1% of our revenue for 2016 and 2017, respectively.

### **Our Competitive Strengths**

#### ***Established market position in the Chinese aluminum industry with solid growth profile and sustainable and resilient profitability***

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. As of December 31, 2017, we were one of the largest aluminum manufacturers in China in terms of production capacity according to Antaike. We believe our size and proven ability to deliver significant volumes across key customers have helped us to achieve significant economies of scale. By leveraging our scale and established market position, we are able to maintain solid growth and sustainable and resilient profitability. Our revenue has grown from RMB61.4 billion in 2016 to RMB93.3 billion in 2017. Our overall gross profit margin for the years ended December 31, 2016 and 2017 were approximately 23.1% and approximately 16.0%, respectively, which we believe was among the most competitive in the Chinese aluminum production industry. We believe this also ensures that customers can be reliant on us in terms of contract delivery which in turn has led to a high contract renewal rates and also allowed us to obtain significant negotiating leverage to obtain competitive commercial terms for our products.

Furthermore, China is the largest and fastest growing major aluminum market in the world. According to Antaike, China has been the largest aluminum consumer globally since 2005 and it consumed approximately 35.4 million tons of primary aluminum, amounting to 55.0% of world total consumption in 2017. According to Antaike, China's aluminum consumption grew at a CAGR of 8.2% from 2014 to 2017, as a result of the extensive use of aluminum in construction, electrical, transport, consumer durables and packaging. Antaike expects that China's demand for aluminum products will continue to grow due to China's continuing urbanization, investments in infrastructure construction and the rapid growth in China's automobile industry, power grid construction, subway systems, personal electronic products, and high-end packaging material. We believe that, with our established market share and track record, we are well positioned to capitalize on China's growth.

#### ***Vertically integrated business model providing significant cost advantages***

We are vertically integrated with self-owned alumina plants, primary aluminum plants, captive power plants and downstream aluminum production facilities. We also actively expanded our procurement channels of bauxite, which is the upstream production raw material of alumina, by importing bauxite from various places of origin including Indonesia, the Republic of India, Brazil, Malaysia and the Commonwealth of Australia as well as our own bauxite mining project in Guinea. Vertical integration provides us with numerous cost advantages and allows us to be more competitive in the industry. As of December 31, 2017, we had an annual production capacity of aluminum of approximately 6.46 million tons. Self-produced alumina satisfied approximately 85.7% of our total alumina demand for 2017. In addition, our captive power plant had an aggregate installed capacity of 12,295 MW as of December 31, 2017. Self-produced electricity satisfied approximately 73.8% of our total electricity needs for 2017. In addition, we have been actively expanding the manufacture and sale of aluminum fabrication products. Sales of aluminum fabrication products grew from RMB2,412.8 million in 2016, accounting for approximately 3.9% of total revenue for the year, to RMB5,416.9 million in 2017, accounting for approximately 5.8% of our total revenue for the year. We believe offering high value-added aluminum fabrication products will help us to diversify our product mix as well as to capture additional profit margin, because high value-added aluminum fabrication products generally command a higher margin compared to primary aluminum products.

Leveraging our vertically integrated business model, we have enjoyed a competitive cost structure. We believe our cost advantage is mainly a result of (i) our large-scale, cost-efficient production facilities, including our captive power stations which provide stable and low cost off-grid direct power supply, (ii) our self-produced alumina and our ability to obtain alumina supply at competitive and advantageous rates, and (iii) our cost savings from focusing on selling molten aluminum alloy. Equipped with these



advantages, our unit cost of sales of primary aluminum products for 2017 was approximately RMB10,234 per ton while the industry average was approximately RMB12,922 per ton, according to Antaike. We believe this helps to differentiate ourselves from other competitors in the aluminum industry in China, specifically in the following aspects:

- *Large-scale, cost-efficient captive power stations*

As of December 31, 2017, the total production capacity of our thermal power stations across our Zouping, Zhanhua District, Beihai New District, Weiqiao, Binzhou, Yangxin and Huimin production bases was 12,295 MW. In addition, we also have a cross Yellow River power grid network that has a 110KV cross Yellow River transmission line with a length of total 2x67.5 kilometers and a 220KV Zouping central substation. Electricity we produced in-house accounted for 84.6% and 73.8% of the total electricity we used in the two years ended December 31, 2016 and 2017, respectively. This percentage of self-sufficiency decreased somewhat in 2017 as construction of thermal power plants lagged behind expansion of our aluminum production capacity. In 2017, our thermal power stations achieved a high capacity utilization rate with annualized average utilization hours of approximately 6,093 hours. In addition, since January 1, 2010, we have sold steam generated by our thermal power stations to one of our suppliers. The high capacity utilization rate of our thermal power stations and sales of steam generated by these thermal power stations to our main external supplier of alumina have further reduced our electricity generation costs.

- *Off-grid direct power supply*

Our eight aluminum manufacturing bases are all in close proximity to each other and are connected by an in-house power supply grid. This power supply grid enables us to purchase off-grid electricity and avoid paying wheeling charges to power grid suppliers. We believe our electricity purchase model is economically more favorable than those of our competitors who purchase on-grid or off-grid electricity that requires them to pay wheeling charges to power grid suppliers.

- *Alumina produced in our in-house facility*

In 2012, we constructed facilities to make use of coal fly ash, which included an in-house alumina production facility with an initial aggregate annual production capacity of 3,000,000 tons of alumina, at Zouping Binzhou Beihai Development Zone. Since then, we have continued to increase our in-house production capacity of alumina. As of December 31, 2017 we had production capacity of 13,000,000 tons of alumina in the PRC. We also have our own overseas alumina production facilities. In the first half of 2016, our project in Indonesia, which was designed to reach an annual production capacity of one million ton of alumina, also commenced operation, and as of December 31, 2017 we had a production capacity of 1,000,000 tons of alumina in Indonesia. The alumina we self-produced accounted for approximately 73.4% and 85.7% of the total alumina that we used in 2016 and 2017, respectively. In addition, Bauxite procurement cost is an important cost of alumina production. We have strong bargaining power in the purchase of bauxite and have maintained long-term cooperative relationships with certain suppliers due to our large scale of production. We, along with our joint venture partners, have also successfully created a complete bauxite supply chain in Guinea, linking Africa and China and helping to ensure more stable supply. See “– Procurement – Raw Materials – Supply of alumina and bauxite”.

- *Cost savings by focusing on selling molten aluminum alloy to nearby customers*

Sales of molten aluminum alloy accounted for approximately 87.7% and 81.4% of our revenue for 2016 and 2017, respectively. Molten aluminum alloy is our main product in terms of sales volume and revenue. By focusing on molten aluminum alloy as compared to aluminum alloy ingots, we avoid incurring significant molding costs and associated electricity, labor, storage and other relevant costs. Furthermore, all of our molten aluminum alloy customers are in close proximity to our manufacturing bases. We deliver our molten aluminum alloy directly from our smelters to our customers' manufacturing sites immediately after it is ordered and manufactured, allowing us to maintain close to zero inventory of molten aluminum alloy and enjoy low transportation costs. By purchasing molten

aluminum alloy, our customers minimize transportation costs and save the cost of smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labor and storage costs. According to Antaike, customers that buy molten aluminum enjoy cost savings of around RMB500 per ton. As such, our customers and we both benefit from higher margins. Where customers are further away we will sell them aluminum alloy ingots. In 2016 and 2017 we also actively expanded our sales of aluminum alloy ingots to customers outside the aluminum industrial cluster where our production base is located, resulting in an increase in the proportion of aluminum alloy ingots. Sales of aluminum ingots increased from 8.3% of revenue for 2016 to 12.6% of revenue for 2017.

***Strategic location benefitting from a symbiotic relationship within the end-to-end aluminum industry cluster***

We are strategically headquartered in Zouping county, Shandong Province, one of the major aluminum product manufacturing centers in China. Antaike expects annual demand for primary aluminum in the Zouping region to grow from 2.8 million tons in 2018 to 3.2 million tons in 2023, and annual demand for molten aluminum to grow from 2.6 million tons in 2018 to 2.9 million tons in 2023. Furthermore, Antaike expects that over 90% of the demand for aluminum in 2021 in the Zouping region will be met by molten aluminum. We believe our leading market share in molten aluminum in Zouping will allow us to maintain strong sales alongside aluminum demand growth in Zouping. According to Antaike, our molten aluminum production capacity accounted for 97.7% of the total molten aluminum production capacity in Zouping as of December 31, 2017.

Our manufacturing bases and most of our key customers are all in close proximity, forming a self-sustaining end-to-end industrial aluminum production cluster. Being able to supply molten aluminum alloy provides us with a unique competitive advantage in attracting and retaining local customers in Zouping county. Due to close proximity to the Group and the requirement of molten aluminum alloy, our local customers save on transportation costs and costs associated with smelting or reheating aluminum alloy ingots for further processing, including the related equipment, labour and storage costs. In addition, we benefit from alumina supply at very competitive rates from adjacently-located supplier. This close geographic proximity, long-term commitment and large volume purchases provide cost savings associated with packaging, transportation and storage, which are important factors that motivate our supplier(s) to provide the Group with price discounts, forging a stable and long standing mutual relationship.

Shandong Province is connected to major production bases of downstream aluminum product companies, such as those located in Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province by highly developed transportation networks, including highway, railway and sea transportation. As a result, together with our local suppliers and customers in the industrial aluminum production cluster, we are able to deliver products to customers and receive raw materials from suppliers in a timely and cost-effective way. Eastern China, including Shandong Province, is the second largest region in China in terms of aluminum consumption, representing 35.2% of the country's aluminum consumption for 2017, according to Antaike. Within this region, the Yangtze River Delta is one of the most important and developed economic and manufacturing centre in China. Eastern China contributed to 38.8% of China's national GDP in 2017, according to National Bureau of Statistics of China.

***Efficient and advanced production facilities***

We have been investing in advanced technologies and equipment, which we believe can improve our operating efficiency and lower our production cost. The majority of smelting pots we use in our production are equipped with large electricity prebaked cell with four-ends (400kA至600kA四端進電大型預熔槽) and a current intensity of 400kA to 600kA. We have also successfully operated the world's first whole series 600kA production line of aluminum products since the first half of 2015. On December 26, 2016, our subsidiary Weiqiao A&P was awarded the China Nonferrous Metals Industry Scientific Technology Award First Prize issued by the China Nonferrous Metals Industry Association

(中國有色金屬工業協會) and the Nonferrous Metals Society of China (中國有色金屬學會) for its technical development and industrial application of NEUI600kA efficient aluminum electrolytic cells. As of December 31, 2017, all of our production lines for aluminum products had current intensity of over 400kA. For our alumina production, we adopt Bayer's low-temperature and low-pressure method for alumina production to ensure more stable operation of production lines and reduce energy consumption. We also employ advanced technologies and large-scale energy-saving equipment in connection with our power generation including a non-electric-pump system to reduce the electricity usage rate and medium pressure cylinder technology to reduce the energy consumption during the stages of testing and production.

We believe our efficient and advanced production facilities will help us to compete more effectively and achieve higher profit margins.

### ***High Profile Professional Shareholders***

Since the middle of 2017 we have gained the support of certain high profile professional investors and financial institutions who have invested in our shares. In June 2017, we entered into a strategic agreement with CITIC Bank Corporation Limited (“CITIC Bank”), a large domestic commercial bank incorporated in the PRC. Pursuant to the agreement CITIC Bank agreed to provide us with comprehensive credit of up to RMB20 billion over two years, and to use its financial resources to provide us with other comprehensive financial services including but not limited to cash management, supply chain finance, investment banking services, international trade services, asset management services and capital market services. Following this, in August 2017 CTI Capital Management Limited, an indirectly wholly-owned subsidiary of CITIC Limited, which in turn is ultimately controlled by CITIC Group Corporation, entered into a share subscription for approximately 10% of our then share capital and CNCB (Hong Kong) Investments Limited, a subsidiary of China Bank subscribed for convertible bonds worth US\$320 million. As of the date of this offering circular, CITIC Group Corporation, along with its direct and indirect subsidiaries beneficially owned 9.19% of our outstanding shares.

In addition, in January 2018, Capital Group, one of the oldest and largest professional asset managers in the world, subscribed for 6.272% of our shares. As of the date of this offering circular, The Capital Group Companies, Inc., through its wholly-owned subsidiary, beneficially owned 6.22% of our outstanding shares.

We believe the investments made by these high profile professional investors with long-term focus and forward-looking insights helps highlight our credibility among shareholders in the market place and provides us the additional stability to pursue steady, sustainable growth and profitability.

### ***Diversified financing channels with prudent financial management***

Leveraging our strong financial and operating performance, we are able to secure funding from diversified financing channels to support our business development. We have entered into long-term relationships with various commercial banks in the PRC and offshore, including Agricultural Bank of China, Bank of China, China Construction Bank, China CITIC Bank, China Everbright Bank, Evergrowing Bank, China Bohai Bank, Shanghai Pudong Development Bank and Industrial and Commercial Bank of China. We further expanded our financing channels by completing a series of issuances of corporate bonds and short- and medium-term debentures in PRC. We have also been granted a number of offshore loan facilities such as an aggregate amount up to US\$415 million under the Indonesia Facility and an amount up to US\$397.5 million under the CBI 2018 Facility. We issued an aggregate principal amount of US\$300.0 million of our 6.875% senior notes due 2018 in November 2014. On November 28, 2017, our Company also issued the November 2017 CB.

In addition, we adhere to prudent financial management policies. Our EBITDA to finance costs ratio was 5.69 for 2017. Our annualized net debt to EBITDA ratio was 2.02 for 2017. We had bank balances and cash of well over than US\$1 billion at the end of each of 2016 and 2017.

### ***Experienced management team with established track record***

Our workforce and management have extensive experience in the aluminum industry. Our management has a proven track record of developing our business and maintaining margin, and consists of seasoned industry professionals. We believe that our extensive experience has resulted in our ability to manage our operations cost-effectively and maintain profitability through different price cycles. In particular, our executive Director and chief executive officer, Mr. Zhang Bo, has more than 19 years of management experience and has been responsible for overseeing our general operations, marketing and promotion in recent years.

### **Our Strategies**

We seek to further strengthen our established market position in the aluminum industry in China. We aim to remain competitive. To achieve this, we intend to implement the following strategies:

#### ***Further enhance vertical integration to capture additional cost advantages and further strengthen our competitiveness in the market***

We aim to consolidate our position as a leading manufacturer in China of advanced aluminum fabrication products by using our self-manufactured aluminum products. We plan to achieve this goal progressively. We have established ourselves as a leading manufacturer of aluminum products, which we believe provides us with a market reputation, financial strength and technology that will assist us in further expanding into the downstream market for advanced aluminum fabrication products. We are developing our capacity for the production of advanced aluminum fabrication products at our Binzhou and Zouping manufacturing bases. We believe that, by offering advanced aluminum fabrication products, we will be able to diversify our product mix and enhance our competitiveness in the market. In addition, as the profit margins of high-end and advanced aluminum fabrication products, such as aluminum casting-rolling products and high precision aluminum plate and strip products, are generally higher than those of our current aluminum products, we will be able to improve our overall profit margin.

We plan to further enhance our capacity to supply alumina by our own production. We expect that the alumina we produce will continue to contribute to a substantial portion of our supply of alumina in the future. We expect to satisfy approximately 90% of our total alumina needs for the year ending December 31, 2018 with our own alumina production. We believe that our strengthened vertical integration will help us capture additional cost advantages and further improve our competitiveness in the Chinese aluminum market. In addition, we seek to expand our bauxite sources worldwide to ensure the security of our raw material supply. We believe our joint venture engaging in the bauxite mining business in the Republic Guinea will help us to do this.

#### ***Enhance product research and development capabilities***

We seek to focus our research and development efforts on improving our manufacturing techniques, improving product quality and reducing costs. We plan to enhance our capabilities by allocating additional resources to our research and development activities, to hire additional research and development staff, including engineers, and to purchase new advanced machinery and equipment. In addition, we plan to broaden our product portfolio and improve our production processes through our continuing research and development activities. We have established a research and development center, and we intend to recruit more research and development personnel to develop new products, such as advanced aluminum fabrication products. We also plan to procure advanced equipment for our laboratory in order to improve our production technology, enhance the quality of our products and reduce production cost. Our research and development center contributes to rapid growth of the production of aluminum alloy casting-rolling products. We plan to develop our automatic and integrated work safety monitoring system. We also plan to develop cooperative relationships with research and academic institutions to diversify our product mix.

### ***Increase our marketing and sales efforts***

We plan to devote more resources to our marketing and sales efforts in order to expand the customer base for our existing products and also to market and sell our new advanced aluminum fabrication products. While strengthening our dominant market position in Zouping County, we also seek to improve our market penetration in other regions in China, especially in Northeastern, Southern, Eastern and Northern China, where the major downstream aluminum processing bases are located. To further strengthen our market position, we plan to expand our sales and distribution network by establishing new sales offices, providing new training programs to our sales and marketing personnel, participating in industry conferences and trade fairs and exhibitions, advertising our products in China and overseas, further developing of our website for sales and marketing, enhancing our after-sale services and increasing the remuneration of our sales and marketing personnel. We believe that our reputation as a high-quality aluminum alloy manufacturer will help us attract new customers and retain existing customers for our aluminum products. We believe that the successful execution of this strategy will also help to diversify our customer base.

## **RECENT DEVELOPMENTS**

### ***Payment of Final Dividend and Special Dividend for 2016***

During our annual general meeting on December 8, 2017, our shareholders approved a payment of a final dividend of HK\$27.0 cents per share and a special dividend of HK\$20.0 cents for 2016. Such dividends was paid on February 9, 2018 to the shareholders whose names appear on the register of members of our Company on February 6, 2018.

### ***2018 Private Placement and Subscription of Shares***

On January 15, 2018, we and Hongqiao Holdings entered into a placing and subscription agreement with UBS AG Hong Kong Branch, CMB International Capital Limited and CLSA Limited, as the placing agents, pursuant to which the placing agents agreed to place up to 650,000,000 existing ordinary shares of the Company owned by Hongqiao Holdings to independent placees and Hongqiao Holdings agreed to subscribe for and we agreed to allot and issue to Hongqiao Holdings, conditionally upon the successful placing of the existing shares, up to 650,000,000 new ordinary shares of the Company.

The placing and the subscription were completed on January 18 and January 23, 2018, respectively. An aggregate of 650,000,000 existing shares were placed at HK\$9.6 per share and an aggregate of 650,000,000 new shares were subscribed for at HK\$9.6 per share. The net proceeds from the subscription amounted to approximately HK\$6.2 billion, which were intended to be used by us for the repayment of indebtedness and general corporate purposes. No individual placee became a substantial shareholder (as defined in the Listing Rules) immediately after completion of the placing and the subscription.

### ***Recent Material Term Loan Facility Agreement***

On April 9, 2018, we entered into a facility agreement with, among others, CBI as facility agent (the “CBI 2018 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$397.5 million (including a greenshoe option) to finance repayment of part of our existing debts and for general corporate purposes. See “Description of Other Material Indebtedness – Term Loan Facility Agreements – The CBI 2018 Facility” for further information.

### ***Proposed Final Dividend for 2017***

The Board of the Company proposed to a payment of final dividend of HK\$20 cents per share for the year ended December 31, 2017 which is subject to the approval of the shareholders of the Company in May 2018.

## OUR PRODUCTS

Aluminum products are widely used in various industries, such as construction, electrical, transport and consumer durables. Aluminum is a silvery white and ductile member of the boron group of chemical elements, the third most abundant element in the earth's crust, after oxygen and silicon. Aluminum is the most widely used non-ferrous metal for its corrosion resistance due to the phenomenon of passivation and its low density, low tensile strength, and ease in forming alloys with many chemical elements such as copper, zinc, manganese, silicon, and magnesium, which have significant improvement in mechanical properties.

We organize and manage our operations according to our principal products: molten aluminum alloy, aluminum alloy ingots, and aluminum fabrication products. Our molten aluminum alloy and aluminum alloy ingots are labelled as A199.70 aluminum pursuant to the State quality standards promulgated by the PRC government. See “– Quality Control.”

Our revenue generated from aluminum products accounted for more than 99% of our revenue for each of 2016 and 2017, respectively. The following table sets forth the sales volume, revenue, average selling price of, and revenue derived from, each type of our products for the years indicated:

	Year ended December 31,							
	2016				2017			
	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products								
Molten aluminum alloy . . . . .	5,039,530	53,848.1	10,685	87.7%	6,192,913	76,001.0	12,272	81.4%
Aluminum alloy ingot . . . . .	458,638	5,089.1	11,096	8.3%	962,316	11,720.1	12,179	12.6%
Aluminum fabrication products . . . . .	189,358	2,412.8	12,742	3.9%	376,224	5,416.9	14,398	5.8%
Subtotal . . . . .	5,687,526	61,350.0	10,787	99.9%	7,531,453	93,138.0	12,367	99.8%
Steam . . . . .	349,560	45.6	130	0.1%	1,365,284	174.7	128	0.2%
Total . . . . .		<u>61,395.6</u>		<u>100.0%</u>		<u>93,312.7</u>		<u>100.0%</u>

### *Molten aluminum alloy*



Molten aluminum alloy is our main product, and it accounted for approximately 87.7% and 81.4% of our revenue for 2016 and 2017, respectively. Molten aluminum alloy is a red and yellow hot liquid, in which aluminum is the predominant metal and combined with iron, copper, zinc, manganese, silicon, magnesium and other chemical elements. Molten aluminum alloy is an important material for fabricating aluminum products. We use self-manufactured electrolytic aluminum to manufacture molten aluminum alloys.

Molten aluminum alloy has to be stored in a specially designed container to keep its temperature at 750°C to 900°C during delivery. Most of our customers for molten aluminum alloy are in close proximity to our manufacturing bases. We engage third-party delivery service providers to deliver molten aluminum alloy to our customers. See “– Delivery of Products.” Our customers then pour the molten aluminum alloy directly into molds to produce various downstream aluminum products.

According to Antaike, approximately 60% to 70% of aluminum manufacturers in the PRC provide their customers with molten aluminum alloy as the intermediate product for further processing into aluminum fabrication products. According to Antaike, as of December 31, 2017, we were one of the two molten aluminum alloy suppliers in Binzhou City, accounting for approximately 96.3% of the total annual production capacity of primary aluminum in Binzhou City as of that date.

*Aluminum alloy ingots*



Sales of aluminum alloy ingots accounted for approximately 8.3% and 12.6% of our revenue for 2016 and 2017, respectively. Molten aluminum alloy is processed into aluminum alloy ingots through molding, casting and cooling. Our aluminum alloy ingots are produced by using self-manufactured molten aluminum alloy.

Aluminum alloy ingots are widely used as raw materials in the production of car wheels, industrial, civil construction, and thermal conductivity materials due to their outstanding physical, mechanical and thermoplastic features, as well as light-weight, corrosion resistance, easy processing and excellent performance. Our aluminum alloy ingots are primarily sold to customers in various regions across China, such as in other counties in Shandong Province, Beijing, Tianjin, Hebei Province, Jiangsu Province, Guangdong Province, Liaoning Province and Zhejiang Province.

#### ***Other aluminum products***

Sales of aluminum fabrication products accounted for approximately 3.9% and 5.8% of our revenue for 2016 and 2017, respectively. Our downstream aluminum fabrication products principally include aluminum plate, aluminum strip and aluminum foil products. In 2011, we completed a production line in our Binzhou manufacturing base for aluminum alloy casting-rolling and foil products with an aggregate annual production capacity of approximately 30,000 tons as of December 31, 2017. In 2011, we also began building production lines in our Zouping manufacturing base for the production of high precision aluminum plate and strip products and other aluminum products. We began operating the production lines since June 2014.

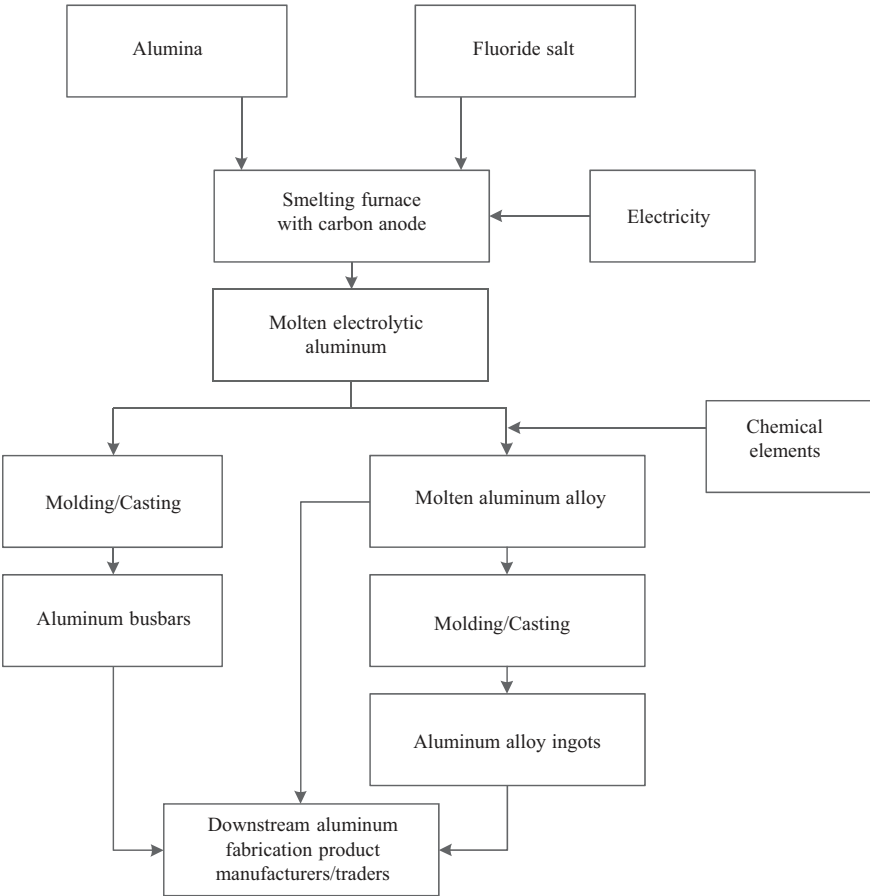
#### **PRODUCTION PROCESS**

Most modern aluminum production facilities adopt the pre-bake reduction process used in aluminum smelting furnaces as it is energy-efficient and environmentally friendly. See “Industry Overview – Overview.” Since our inception, we have used pre-bake anode reduction pot-lines to produce molten aluminum. During the production of molten electrolytic aluminum, the waste gases generated are purified and recycled through our purification system to reduce emission of waste gases to acceptable levels as established by environmental protection agencies.

Molten electrolytic aluminum is made from alumina and carbon anodes through a smelting process using electrolytic reduction. High electric currents at low voltage are passed through the smelting pots to produce molten electrolytic aluminum at a temperature of between 950°C and 970°C. The molten electrolytic aluminum is poured into molds to produce aluminum busbars or combined with various chemical elements to form various molten aluminum alloys. Molten aluminum alloys are poured into molds to produce aluminum ingots.



The production process of our major aluminum products is illustrated below:



**OUR PRODUCTION FACILITIES**

Our Zouping, Beihai New District, Weiqiao, Binzhou, Yangxin and Huimin aluminum manufacturing bases had annual production capacity of approximately 3,080,000 tons, 670,000 tons, 580,000 tons, 930,000 tons, 600,000 tons and 600,000 tons of aluminum product, respectively, as of December 31, 2017 for an aggregate annual production capacity of approximately 6,460,000 tons of aluminum products as of that date. For 2017, we had a weighted average production capacity of approximately 7,946,000 tons and a production volume of approximately 7,544,000 tons.

Our Weiqiao manufacturing base is located in Weiqiao Town, Zouping County, and commenced its operations in September 2006. Our Zouping manufacturing base is located in the Zouping Development District, Zouping County, and commenced its operations in July 2007. Our Binzhou manufacturing base is located in Binzhou Economic Development Zone, and commenced its operations in October 2010. Our Huimin manufacturing base is located in Huimin County and commenced its operation in May 2013. All of our aluminum manufacturing facilities are located in China’s Shandong Province. Our principal equipment includes 400 kA smelting pots and 600 kA smelting pots, holding furnaces, casting machines and continuous casting and rolling lines.

The following table sets forth information relating to our weighted average production capacity for the two years ended December 31, 2016 and 2017 and our production volumes and utilization rates for the same periods:

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
Annual production capacity at year end (tons) . . . . .	7,436,000	6,460,000
Weighted average production capacity (tons) <sup>(1)</sup> . . . . .	6,258,424	7,945,958
Production volume (tons) . . . . .	6,040,040	7,543,729
Utilization rate <sup>(2)</sup> . . . . .	96.5%	94.9%

Notes:

- (1) The weighted average production capacity for each period (annualized) is the result of (i) the total sum of the annual production capacity of each of our production lines multiplied by the months in that period (annualized) that such production line possessed such capacity (ii) divided by the number of months in that period.
- (2) Utilization rate is calculated by dividing the production volume for the relevant year by the weighted average annual production capacity for that period.

In the second half of 2017, in connection with an action plan implemented by relevant government authorities to reform the supply-side aluminum industry and limit coal consumption, we have subsequently decreased our annual production capacity by shutting down electrolytic aluminum projects with production capacity of 2.68 million tons. As a result, our annual production capacity as of December 31, 2017 fell to approximately 6.46 million tons.

## **PROCUREMENT**

We procure raw materials and energy, including electricity and coal, from external suppliers. Our five largest suppliers together accounted for approximately 35.1% and 36.9%, respectively, of our total procurement for 2016 and 2017. Our largest supplier for 2016 and 2017, accounting for approximately 24.4% and 25.6%, respectively, of our total procurement for the same years.

Our production department usually provides our procurement department with a monthly raw materials requirement schedule for its production need for the next month. In accordance with our production requirements and inventory policy, our procurement department will arrange the selection of suppliers and procurement of raw materials.

### ***Raw Materials***

Our procurement department is responsible for the assessment and selection of suppliers and procurement of raw materials. The principal raw materials which we use in production include alumina and carbon anodes.

### ***Supply of alumina and bauxite***

In 2012, we constructed facilities to make use of coal fly ash, including an in-house alumina production facility at Zouping Binzhou Beihai Development Zone with an initial aggregate annual production capacity of 3,000,000 tons of alumina. Since then, we have continued to increase our in-house production capacity of alumina. As of December 31, 2017 we had production capacity of 13,000,000 tons of alumina in the PRC. In addition, on December 27, 2012 we entered into a joint venture with Winning Investment, PT.Cita and PT.Danpac to create an alumina production base in Indonesia with an annual production capacity of one million tons of alumina. This production base commenced operations in the first half of 2016 and produced approximately 0.4 million tons and 1.0 million tons of alumina, respectively in 2016 and 2017. We produced 73.4% and 85.7% of the alumina (in terms of volume) used

in our production of aluminum products at our in-house alumina production facilities in 2016 and 2017, respectively. We produce alumina at a cost below the purchase price of alumina that we purchase externally.

Bauxite procurement cost is an important cost of alumina production. We have strong bargaining power in the purchase of bauxite and maintain long-term cooperative relationships with some suppliers due to our increasingly large scale of production. To help ensure a stable supply, we import bauxite from a number of different countries, including Australia, Brazil, India, Malaysia and Jamaica. Further, we have our own overseas alumina production facilities. We were also involved in the successful creation of a complete bauxite supply chain in Guinea, linking Africa and China. In 2015, we entered into joint venture arrangements with, among others, China Yantai Port Group, United Mining Supply of Guinea (a French-invested company in Guinea) and Wining Singapore International Group, for the purpose of developing a bauxite mining project in the Republic of Guinea. The project involved development of the local bauxite mine as well as investment in the port and local logistics, including construction of barges and docks on either side of the Rio Nunez river. The project commenced operations in 2015, and since then has realized production of approximately 1 million tons of bauxite in 2015, 11 million tons of bauxite in 2016 and 32 million tons of bauxite in 2017.

#### *Alumina procurement*

We have entered into alumina supply agreements, through arms-length negotiation with our suppliers of alumina. We typically obtain the majority of the alumina we procure externally from a single supplier. Pursuant to the relevant alumina supply agreements, we agree to determine the base purchase price of alumina with reference to the sales price of alumina sold by such suppliers to other independent third parties. In addition, we can enjoy price discounts due to our long-term commitment, bulk purchase, and self-pick-up arrangement. Such price discounts are determined through negotiation between the supplier and us from time to time, and are subject to our actual purchase volume and the supply and demand dynamics in the alumina and aluminum industries.

The following table sets forth our source of supply of alumina in China for the periods indicated:

<b>Alumina</b>	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Total Alumina consumed (million tons)</b> . . . . .	12.17	14.46
Self-produced (million tons) . . . . .	8.93	12.39
External purchase (million tons) . . . . .	3.23	2.07
Self-sufficiency rate . . . . .	73.4%	85.7%

#### *Procurement of other raw materials*

Our raw materials other than alumina are generally procured through competitive bidding among our suppliers. We organize regular on-site biddings and online biddings for our raw materials suppliers. For carbon anodes, we negotiate the terms and conditions of the supply agreements with our suppliers. When we select suppliers, we not only take into account the bidding price, but also carefully consider the candidate's credit history, the quality of the raw materials and feedback from our production department.

We have entered into long-term framework supply agreements with some of our suppliers to secure a stable supply of raw materials. Such long-term framework agreements usually have a term of three years. Pursuant to these supply agreements, our suppliers provide us with certain volumes of raw materials on a monthly basis. We have also entered into individual supply agreements with our suppliers based on bidding results. For the supply of carbon anodes and fluorides, the suppliers are responsible for delivery of the raw materials to our warehouse and the relevant expenses. We have the right to terminate the supply agreement if the quality is not satisfactory. We usually require the suppliers to make quality deposits with us, which will be deducted if the suppliers cancel or fail to perform the supply agreements. For the long-term framework supply agreements, the price is determined by reference to the market price. For the individual supply agreements, the price is determined through the bidding process.

For carbon anodes, fluorides and other raw materials, we usually make payments after we check the quality of such raw materials and formally accept the delivery. We usually have a credit period of up to 60 days for these raw materials.

## **ELECTRICITY SUPPLY**

Electricity is one of the principal cost components in our production. Smelting aluminum requires a substantial and continuous supply of electricity. As a result, the availability and cost of electricity are key considerations in our production. To help secure a stable electricity supply, we commenced the construction of our own thermal power stations in 2005, which started to supply electricity to us in January 2007. The electricity generated is off the grid and is exclusively supplied to our operations. Generating electricity at our own power station cost less than purchasing electricity from an external supplier during the two years ended December 31, 2017. We had electricity production capacity of approximately 12,295 MW as of December 31, 2017. The volume of electricity supplied by our own thermal power stations accounted for approximately 84.6% and 73.8% of the volume of our total electricity consumption for 2016 and 2017, respectively.

We procure the balance of our electricity from an external supplier. We have purchased off-the-grid electricity from an external supplier since July 2008. In China, as off-the-grid electricity does not use the state-owned grid system for transmission, the price of off-the-grid electricity does not include the wheeling charges, and as a result, is lower than that of on-the-grid electricity. In 2016 and 2017 we purchased all of the electricity we did not generate ourselves from a single external supplier. In January 2018, we entered into an electricity supply agreement with a new supplier of electricity from whom we intend to procure all of our external electricity going forward. The electricity supply agreements we have entered into with our suppliers contain a base price and a price adjustment mechanism allowing for subsequent price adjustment if the price of coal undergoes significant, sustained fluctuation. Such agreements do not have a definite term, and remain effective unless otherwise terminated pursuant to the terms of such agreement.

The following table sets forth our source of supply of electricity in Shandong Province for the periods indicated:

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Electricity</b>		
Total electricity consumed (million KWh) . . . . .	86,168	108,822
Self-produced (million KWh) . . . . .	72,888	80,285
External purchase (million KWh) . . . . .	13,280	28,537
Self-sufficiency rate . . . . .	84.6%	73.8%

### ***Our thermal power stations***

#### *Power generation*

Our existing thermal power stations started to supply electricity to our operations in January 2007. As of December 31, 2017, our thermal power stations had an installed generation capacity of 12,295 MW.

Theoretically, the maximum utilization hours of a power station is 8,760, the number of hours in a year. The utilization rate of a power station refers to the amount of the average utilization hours in a year divided by 8,760 hours. The average utilization hours of our Group were approximately 6,609 hours and 6,093 hours for 2016 and 2017, respectively, and the utilization rate was approximately 75.4% and 69.6% during the same periods.

### *Steam supply*

Our power stations also produce heat in the form of steam, which is a by-product of power generation. We use most of the steam we produce for in-house production of alumina. We also sell a portion of the steam we produce in the process of electricity generation to other parties. For the two years ended December 31, 2016 and 2017, sales of steam accounted for 0.1% and 0.2%, respectively, of our total revenue.

### *Coal procurement*

Our thermal power stations use coal as fuel. We purchase meagre lean coal for power generation, which usually has an average calorific value of 4,600 kilocalories to 6,000 kilocalories per kilogram and a sulfur-bearing rate below 4%.

We purchase coal from a number of coal suppliers near Shandong Province. Our coal procurement personnel are based in Shanxi Province, Hebei Province and Inner Mongolia, and they carry out market research with respect to the production, price, transportation cost and inventory level of coal in their respective regions and report such information to our headquarters. In particular, when there is any actual or potential dramatic coal price change in the market, our coal procurement personnel will collect and send to our headquarters relevant market information and our headquarters will adjust our inventory level of coal to address the price risk. We have not entered into any long-term coal supply agreements with our coal suppliers. We have implemented a competitive bidding system among our coal suppliers to ensure our coal supply is of low cost and high quality. We send our bidding invitation in the middle of every month, which specifies the time and location of the bidding and the quantity and quality of the coal. When we select coal suppliers, we not only take into account the bidding price, but also carefully consider the candidate's credit history and ability to supply coal at satisfactory quality on time. We usually pay the purchase price to a coal supplier when the coal supplied by such supplier reaches certain minimum amount. Historically, generally we have been able to purchase sufficient coal in the open market to meet our requirements. We purchased coal with a total amount of approximately RMB14,417.6 million and RMB19,800.1 million (US\$3,043.2 million) in 2016 and 2017, respectively, including the coal used in the generation of electricity and steam. The purchase cost of coal accounted for approximately 30.5% and 25.2% of our total cost of sales for 2016 and 2017, respectively.

The following table sets forth our average coal consumption cost and the average price of mix-quality coal quoted by Qinhuangdao Shanxi quality index:

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<b>(RMB/ton)</b>	
Average coal consumption cost (excluding VAT) <sup>(1)</sup> . . . . .	363	496
Average price (including VAT) of mix-quality coal quoted by Qinhuangdao Shanxi quality index <sup>(2)</sup> . . . . .	475	638

*Source: Antaike*

- (1) Our Group's average coal consumption cost is inclusive of transportation cost in China but exclusive of VAT.
- (2) According to Antaike, the Qinhuangdao coal price is the most frequently quoted benchmark price in the coal markets in Shandong Province and other regions in China, and is inclusive of transportation cost of coal transported to Qinhuangdao port, which is the largest coal shipping port in the world and inclusive of VAT.

## **SALES AND MARKETING**

### ***Sales and marketing team***

We sell our products through our own sales and marketing team. As of December 31, 2017, we employed 28 sales and marketing personnel.

The head office of our sales and marketing team is located in our manufacturing bases in Zouping County, Shandong Province. The head office is in charge of the overall management of our sales and marketing activities, including market research and development, customer relations, implementation of our sales plan and supervision of our branch offices. As our production schedule is based on sales, the head office also closely works with our production department to ensure timely production and delivery of our aluminum products.

Our sales and marketing teams are responsible for the sales and marketing activities in their own regions. They are responsible for identifying business and market opportunities, engaging in business networking, strengthening relationships with our existing customers while cultivating relationships with potential customers, formulating monthly sales plans and collecting receivables from our customers.

### ***Sales and marketing***

Our sales and marketing team directly sells products to our customers. We usually approach our customers by visiting their offices or calling them.

We sell our aluminum products to customers in Northeastern, Southern, Eastern and Northern China. Molten aluminum alloy is our most popular product. Most of our molten aluminum alloy customers are in close proximity to our manufacturing bases. Our aluminum alloy ingots are primarily sold to customers in other regions, such as other counties in Shandong Province, Beijing, Tianjin, Hebei Province, Jiangsu Province, Guangdong Province, Liaoning Province and Zhejiang Province..

### ***Sales contract terms***

We usually enter into framework sales agreements with our customers, which provide for terms of quality, pricing, settlement, payment and planned monthly or annual sales volume. Our customers generally provide us with purchase orders on a monthly basis. The actual monthly volume delivered is negotiated between our customers and us by taking into account the order volume and our capacity for the corresponding month. There is usually no minimum purchase amount required in our framework sales agreements. A sales framework agreement usually has a term between one year to three years. We also enter into individual sales contracts with our customers.

The quality of our products is subject to the national quality standards issued by the PRC government. See “– Quality Control.” We are generally responsible for the delivery of most of our products to customers, with the remaining amount being picked up by our customers. In addition, our sales contracts generally provide that, once the products leave our manufacturing site, the ownership of such products are immediately transferred to our customers. As a result, we are not responsible for the risk of losses occurring during transportation. Moreover, if there is any dispute over product quality, the customer must raise such issue within three days after receipt of the relevant products. Currently, for products sold in China, the price of most of our products is based on the mean price on the Antaike Metals Spot Market, while the price of our aluminum fabrication products is primarily determined with reference to the mean price on the Yangtze River Non-ferrous Metals Spot Market. A premium or discount may be applied from time to time. We usually require most of our customers to make full payment before delivery. Our customers may choose to pay us by cash or endorsed bank bills.

For our molten aluminum alloy products, our customers usually make prepayments to us on a weekly basis by reference to the average price of our molten aluminum products in the preceding week. However, due to the fluctuation in the price of the molten aluminum alloy, such prepayments may be

less than the total price of the molten aluminum alloy delivered by us. For aluminum alloy ingots, our customers usually make prepayments by reference to the then prevailing market price. However, consistent with the general industry practice, for any delivery which may take several days or longer, the actual price is often determined by reference to the price of the delivery date rather than the prepayment date, and there may be price differences between the price of the prepayment date and the price of the delivery date, which means the prepayments may fall short of the total price of the aluminum alloy ingots delivered by us. As a result, we will have trade receivables. We generally collect such balance within 90 days. For our aluminum fabrication products, payments will be generally made by our customers upon delivery of our products.

## **OUR CUSTOMERS**

We primarily sell aluminum products to domestic customers, who are located mainly in Shandong Province as well as in other regions of China. Our five largest customers accounted for approximately 64.2% and 66.0% of our revenue of continuing operations for 2016 and 2017, respectively. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well known traders. Our largest customer accounted for approximately 45.0% and 48.1% of our revenue of continuing operations for 2016 and 2017, respectively. Sales volume of our aluminum products was approximately 5.7 million tons and 7.5 million tons for 2016 and 2017, respectively.

During the two years ended December 31, 2017, our customers included (i) downstream manufacturers, who processed our aluminum alloy products into aluminum fabrication products, such as aluminum plates, aluminum wire and wheel hubs, and (ii) traders, who in turn resold our products to downstream aluminum fabrication product manufacturers or other traders. There is no difference in pricing strategy towards these two groups of customers. During the two years ended December 31, 2017, our five largest customers were all downstream aluminum fabrication product manufacturers located in Binzhou, Shandong Province.

As most of our molten aluminum alloy customers are located near our production bases, there is a high geographic concentration of our customers. Our revenue of molten aluminum alloy accounted for approximately 87.7% and 81.4% of our revenue for 2016 and 2017, respectively.

## **INVENTORY CONTROL**

We had inventories of approximately RMB17,143.3 million and RMB15,585.3 million (US\$2,395.4 million) as of December 31, 2016 and 2017, respectively. Our average turnover days of inventory, exclusive of those held for sale, were 114 and 76 days for 2016 and 2017, respectively. The decrease in our average turnover days of inventory for 2017 was primarily due to strengthening of our inventory management of major items to allow us to maintain inventory at a reasonable and low level, despite significant increases in production and sales volume of our aluminum products.

Our production and inventory plans are prepared based on our sales. We enter into sales contracts with customers based on our actual production capacity, and our sales and marketing team prepares the production plans and delivers the production plans to our production department, which arranges our inventory accordingly. We usually keep in stock enough raw materials for 15 days' production requirement to ensure our continuous operations. We generally keep in stock enough coal for 15 days' power generation requirement, while from November to February, we usually keep enough coal for one month's requirement. We monitor and control our inventory levels of raw materials, work-in-progress and finished products to optimize our operations. We use an enterprise resource planning, or the ERP, system to ensure an efficient and effective management of our inventories. This ERP system keeps record of our inventories so that we have ready access to inventory levels and movement. We have management procedures that monitor the planning and allocation of warehouse space and inventory of raw materials and finished products to meet the delivery requirements and schedules. We also carry out daily inventory counts on our finished products to ensure that our records are up-to-date and there is no loss of inventory.

Since most of our inventories, including alumina, aluminum products and coal, are commodities which are readily tradable in the market and have a short production cycle, we generally do not have any obsolete inventories. Because molten aluminum alloy is produced pursuant to the purchase orders of our customers, which are all located in close proximity to our manufacturing bases, we are able to deliver the molten aluminum alloy directly from our smelters to our customers manufacturing sites immediately after the molten aluminum alloy is manufactured, which allows us to maintain close to zero inventory of molten aluminum alloy. Our entire inventory is insured against fire and natural disasters.

## **QUALITY CONTROL**

We believe that the quality of our products is crucial to our continued growth. We place strong emphasis on maintaining consistent quality in our products and services with involvement and commitment from all levels of our management and staff.

The PRC government has issued a series of mandatory national quality standards for aluminum products under various labels. The standards for our aluminum products are mainly set out in the documents GB/T 1196 – 2008 published by the PRC government.

The standards for our aluminum products are mainly set out in the document GB/T 1196 – 2008 published by the PRC government, which prescribes the national standards in relation to various areas including: (1) quality of primary aluminum; (2) sample test required to be conducted to examine the purity of primary aluminum; and (3) labelling, packaging, transportation and storage. The quality of primary aluminum is graded into seven levels based on the amount of impurities contained. Our aluminum products are graded A199.70, which means the impurities contained in our aluminum busbars are no more than 0.3%.

We emphasize quality in our manufacturing processes. To closely monitor our manufacturing processes, we have established a quality control department. As of December 31, 2017, we had 193 quality control personnel. For inspection purposes, we use equipment, such as spectrographs and atomic absorption spectrometers, to analyze the chemical elements of our products. Furthermore, we have prepared a set of manuals and documents on standard production procedures and our employees are required to follow them to ensure the product quality. In order to meet the high quality standards of our customers, our quality control procedures are carried out at various stages of the manufacturing processes, including incoming, in-process and outgoing stages. In addition, we carry out regular quality control training sessions for our employees to promote quality control technologies as well as quality control awareness. Shandong Hongqiao obtained the ISO 9001 certification for our manufacturing facilities in April 2010.

## **RESEARCH AND DEVELOPMENT**

Our research and development activities are led by Mr. Deng Wenqiang, who is responsible for the production, research and development of aluminum products of our Group. Our research and development activities focus on reduction of electricity consumption in our production, optimization of our processing technologies and improvement of product quality. We seek to enhance our capabilities by placing additional resources to our research and development team by way of recruitment of additional research and development staff, including engineers, and purchase of additional advanced machinery and equipment. We intend to recruit more research and development personnel to develop new products, such as advanced aluminum fabrication products, to procure advanced equipment for our laboratory to improve our production technology, enhance product quality and reduce production cost. Preparation for the center commenced in April 2010 and it has been operative since the second half of 2011. We plan to develop our automatic and integrated work safety monitoring system. We also plan to develop cooperative relationships with research and academic institutions to diversify our product mix.



## **DELIVERY OF PRODUCTS**

We usually arrange for the delivery of the majority of our products to customers. We rely on third party logistics service providers to deliver our products.

We generally use trucks and ships to deliver aluminum alloy ingots. Once we enter into a sales agreement with a customer, a delivery order will be sent to our logistics subdivision under the sales and marketing department, which will in turn send a bidding invitation to third party logistics service providers. The successful bidder will arrange the delivery in accordance with our customer's requirement after entering into a service agreement and making a deposit with us. We will settle the transportation fee upon the presentation of our customer's receipt and the service provider's invoice. The logistics service providers for aluminum alloy ingots are generally responsible for losses of and damages to our products incurred during delivery pursuant to the relevant service agreements.

Molten aluminum alloy has to be stored in a specially designed container to keep its temperature at 750°C to 900°C during delivery. All of our molten aluminum alloy customers are located in close proximity to our manufacturing facilities. We engage third party transport companies for the delivery of molten aluminum alloy pursuant to a competitive bidding among logistics service providers.

## **INTELLECTUAL PROPERTY RIGHTS**

We place emphasis on protecting the intellectual property rights of our products, processes and technologies. As of December 31, 2017, we were not aware of any of our employees disclosing our intellectual properties which are material to our business to third parties in breach of their contractual obligations.

As of December 31, 2017, we owned the domain names [www.hongqiaochina.com](http://www.hongqiaochina.com), [www.hongqiao-china.com](http://www.hongqiao-china.com), [www.hongqiaogroup.cn](http://www.hongqiaogroup.cn) and [www.hongqiaoxc.com](http://www.hongqiaoxc.com). As of December 31, 2017, we also had seven registered trademarks in Hong Kong, and 11 registered trademarks in the PRC for our aluminum products.

## **COMPETITION**

The aluminum industry is highly competitive in China. As of December 31, 2017, according to Antaike, there were 91 primary aluminum manufacturers in China, and the average designed annual aluminum production capacity of these manufacturers was 493,000 tons of primary aluminum products, including pure aluminum products and aluminum alloy products. According to Antaike, as of December 31, 2016, only 25 primary aluminum manufacturers in China had a designed annual primary aluminum production capacity of 500,000 tons or more, which accounted for approximately 70.1% of the total primary aluminum production capacity in China.

Molten aluminum alloy is our most popular product in terms of sales volume and revenue. As molten aluminum alloy is a hazardous material for transportation and needs to be stored in a specially designed container to maintain a high temperature during delivery, purchasers of molten aluminum alloy are always located in close proximity to the manufacturing facilities of molten aluminum alloy. As the major aluminum supplier in Zouping County, we accounted for approximately 97.7% of the total annual production capacity of primary aluminum in Zouping County as of December 31, 2017, according to Antaike.

We sell aluminum alloy ingots, aluminum alloy casting-rolling products and aluminum busbars to customers located in Northeastern, Southern, Eastern and Northern China. We generally compete with our competitors on quality of products, pricing, location of manufacturing site, time-to-market and available capacity.

## ENVIRONMENTAL PROTECTION

We are subject to PRC national environmental laws and regulations and periodic inspection by local environmental protection authorities, including but not limited to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Environmental Impact Evaluation Law of the PRC (中華人民共和國環境影響評價法), the Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例), the Law of the PRC on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of the Water Pollution (中華人民共和國水污染防治法) and the Administrative Regulation on the Levy and Use of Discharge Fees (排污費徵收使用管理條例). We are required to conduct assessments on the effect on the environment for the construction of our production lines and power station, formulate environmental pollution prevention and remedial plans and obtain approval from the environmental protection authorities for such assessments before the commencement of construction of our production lines and power station. After the completion of construction, we need to pass inspections for our environmental protection facilities by the environmental protection authorities. We are required to apply for registration with relevant environmental protection authorities for discharge of pollutants and pollutant discharge permits, and pay for over-discharge.

### *Aluminum production*

According to relevant PRC environmental laws and regulations, the construction, renovation and expansion of all aluminum-processing projects must comply with relevant aspects of the environmental impact assessment system. According to Article 31 of the Law of the People's Republic of China on Environmental Impact Assessment which was issued on July 2, 2016 and took effect on September 1, 2016,

1. where a construction entity unlawfully commences the construction of a project without submitting for approval its environmental impact report or report form in accordance with the law, or without reporting for approval anew or requesting the re-examination of the environmental impact report or report form in accordance with the provision of Article 24 of the Law of the People's Republic of China on Environmental Impact Assessment, the environmental protection administrative department at or above the county level shall order it to cease construction, and according to the circumstances of violation of law and damage, impose a fine of not less than 1% but not more than 5% of the total investment of the construction project on it, and order it to restore to the original state; and in accordance with the law, take disciplinary actions against the directly responsible person in charge and other directly liable persons of the construction entity.
2. where the construction entity unlawfully commences construction of a project without obtaining the approval of its environmental impact report or report form or without obtaining new approval of the original approval department upon examination, it shall be punished or given disciplinary action in accordance with the provisions of the preceding paragraph.
3. where the construction entity fails to undergo recordation formalities for the environmental impact registration form of a construction project in accordance with the law, the environmental protection administrative department at or above the county level shall order it to undergo recordation, and impose a fine of not more than 50,000 yuan on it.

According to Article 21 of the Regulations on the Administration of Construction Project Environmental Protection which was issued on July 16, 2017 and took effect on October 1, 2017, where a project owner commits any of the following conduct, it shall be punished in accordance with the provisions of the Law of the People's Republic of China on Environmental Impact Assessment:

- (1) the project owner commences the construction project without submitting the environmental impact report or the environmental impact statement for approval or reexamination in accordance with the law.

- (2) the project owner commences the construction project when the environmental impact report or the environmental impact statement has not been approved or reexamined.
- (3) the environmental impact registration form of the construction project has not been granted recordation in accordance with the law.

Aluminum production is subject to various environmental laws and regulations. For example, national regulations promulgated by the PRC government set forth discharge standards for emissions into the air and water. National environmental protection enforcement authorities also promulgate discharge fees for various waste substances. The discharge fee usually increases for each incremental increase of the amount of discharge up to a specified level set by the state or local regulatory authorities. For any discharge exceeding the specified level, the relevant PRC government may order our facilities to rectify behavior causing environmental damage, and subject to PRC government approval, the local government has the authority to order any of our facilities to close for failure to comply with existing regulations.

During the manufacturing process of aluminum products, our factory discharges sewage, emits air pollutants and produces noise. We have installed dedusting equipment for our manufacturing facilities to minimize industrial waste. In addition, we recycle and reuse aluminum scraps generated during our production process. We have improved our energy-efficiency by applying new production techniques and new technologies and optimizing our production process. In addition, we have installed sound insulation equipment to reduce the impact of the noise produced in the daily operations of our manufacturing bases.

#### ***Thermal power stations***

During the power generation process, a power station discharges sewage, emits air pollutants, such as sulphur dioxide, and produces noise. We have installed dedusting and desulphurization equipment in our power station to reduce the emission of air pollutants. We have also installed water recycling and treatment equipment to minimize the impact of sewage on the environment. Our power stations have obtained the required approvals from and has satisfied the emission requirements provided by local governments in all material respects. In addition, we have installed sound insulation equipment to reduce the impact of the noise produced in the daily operations of our power station.

#### ***Our environmental protection measures***

We have established a dedicated environmental protection department. The environmental protection department is responsible for overseeing the environmental protection of our Group as a whole, such as formulating environmental-related guidelines and policies for our Group in order to ensure compliance with the applicable environmental laws, regulations and standards, monitoring the latest development in the environmental-related laws, regulations and standards in the PRC in order to ensure the internal environmental protection guidelines and policies of our Group is up-to-date, monitoring the compliance with the applicable environmental laws, regulations and standards by regularly inspecting the production facilities and the pollutant discharge facilities of our Group, handling the application for environmental protection approvals and the inspection and any other necessary filings for the construction projects of our Group, liaising with the governmental environment protection authorities in the PRC as and when required and formulating contingency plan for any environmental-related emergency and handling such emergency.

As of December 31, 2017, our environmental protection department comprised of 46 environmental protection personnel, all of whom had obtained vocational training college education and majored in environmental science, environmental engineering or environmental inspection and treatment. Mr. Ji Dengpan, who has been the head of our environmental protection department since its establishment in 2007, has approximately fifteen years of experience in environmental protection, and our environmental protection personnel have an average of more than ten years of experience in environmental protection.

In addition to these environmental protection personnel, as of December 31, 2017, we also had 1,271 production personnel who were responsible for the operations, monitoring and maintenance of our environmental protection facilities.

Shandong Hongqiao obtained the ISO14001 for our environmental management system in April 2010, which set out a wide range of environmental protection requirements, such as the knowledge of environmental protection among our employees, the pollution control and monitoring standards, the pollutant disposal guidelines and the pollution prevention and remedial system.

## **WORK SAFETY**

We are subject to PRC safety laws and regulations, which set out the legal standards for health and safety measures with which our operations must comply. As our business expands and our production operations become more complex, we regularly review and ensure that our occupational health and safety procedures and measures are in compliance with all relevant legal standards. We are required to conduct assessments on the safety of our aluminum production lines and power station, formulate production safety and accident prevention plans and obtain approval from the work safety authorities for such assessments before the commencement of construction of our aluminum production lines and power station. After the completion of construction, we need to pass inspections for our work safety facilities by the work safety authorities. We are required to provide our employees with work safety education and training, as well as work safety equipment that meet the national and local standards. We are required to educate and supervise our employees to strictly follow our work safety rules and procedures. Based on the confirmations issued by relevant authorities, we have complied with relevant national and local work safety laws and regulations.

We have devoted a substantial amount of resources to work safety and accident prevention. We are committed to providing a safe and healthy working environment for our employees and have received GB/T 28001:2001 certification for our occupational health and safety management system in January 2011. GB/T 28001:2001 is a voluntary national PRC standard for occupational health and safety management systems issued by the Standardization Administration of the PRC. Since the establishment of our Group, we have adopted and implemented a series of occupational health and safety procedures and measures for our business operations. We have formulated guidelines on occupational safety, such as production safety measures and procedures for handling certain emergency, to all employees. We hold monthly work safety meeting mechanism at various levels of our management to exchange information of recent experience and measures among our different operational divisions, review the issues discovered in the implementation of our work safety policies and improve our overall work safety and accident prevention. We also have a dedicated production safety management division, which is responsible for managing and implementing occupational health and safety practices at our facilities. All personnel of our production safety management division have taken training courses for work safety held by the government, and possess necessary qualification for work safety issued by the local government of Binzhou City. In addition, we have installed safety protection and inspection equipment at our work site, and we monitor all equipment and facilities on a real time basis. Furthermore, we hold regular work safety training sessions for our special skilled workers and general staff to increase safety awareness, and conduct routine occupational health examinations for our employees.

## **INSURANCE**

We maintain insurance policies with insurance companies in China which cover losses to our equipment, facilities, buildings and their improvements, vehicles and inventories arising from fire, lightning, explosion and aircraft accidents. Insurance coverage for our fixed assets and inventories in China amounted to approximately RMB1,500.0 million (US\$230.5 million) as of December 31, 2017. Currently, we do not maintain business interruption insurance or insurance relating to the delivery of our products. Our sales contracts generally provide that, once the products leave our manufacturing site, the ownership of such products are immediately transferred to our customers. As a result, we are not

responsible for the risk of losses occurring during transportation. In addition, for losses of and damages to our molten aluminum alloy products during delivery, our delivery service provider is responsible if such losses and damages are attributable to its fault. The logistics service providers for aluminum alloy ingots, aluminum alloy casting-rolling products and aluminum busbars are generally responsible for losses of and damages to our products incurred during delivery pursuant to the relevant service agreements. We do not maintain any product liability insurance. We have not made any material claims under our insurance policies and have not experienced any material business interruptions since we commenced our operations.

## EMPLOYEES

As of December 31, 2017, we employed approximately 50,500 full-time employees. The table below sets forth the breakdown of our employees by functions as of December 31, 2017.

<b>Function</b>	<b>Number of employees</b>
Aluminum production . . . . .	25,518
Alumina production . . . . .	13,073
Power station . . . . .	9,109
Supply . . . . .	246
Sales, marketing and delivery . . . . .	317
Quality control . . . . .	193
General management . . . . .	2,044
<b>Total</b> . . . . .	<b>50,500</b>

We believe that our management policies, working environment and employee development opportunities and benefits have contributed to good employee relations and employee retention. We provide additional benefits to our employees, such as free accommodation, allowances for medical care, food and transportation. We have not experienced any labor strikes or major labor disputes since our inception.

We provide training programs for our employees to equip them with the requisite skills and knowledge. This is achieved through various internal training programs. Each new employee is provided with necessary training programs and supervision from senior employees during the first four months on the job to facilitate the transfer of necessary skills.

The remuneration package of our employees includes salary and various types of allowances. In addition, we have established a performance-based award system under which employees may be awarded additional bonuses. Under the relevant labor and social welfare laws and regulations, we are required to pay each of our non-rural residence employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing reserve fund. As required by PRC regulations, we participate in the social insurance schemes operated by the relevant local government authorities.

## INTERNAL CONTROL

To enhance the internal control of our Group, our Company engaged an independent internal control consultant to review the internal controls of our PRC subsidiaries, which included Shandong Hongqiao, Aluminum & Power and Zhengtong.

The review of the internal control consultant identified a number of areas requiring improvement, which primarily related to the implementation of additional policies and procedures including but not limited to the policy for nomination and selection of Board members, compensation committee and audit committee charter and procedures, and policies and procedures for disclosures, revision of certain existing policies and procedures including but not limited to treasury management, and further

enforcement of the procedures that are currently stated in the policies. The internal control consultant provided recommendations for all findings. The findings identified by the internal control consultant in terms of policies/procedures and executions of control have been remedied.

#### **NEGATIVE REPORTS AND COMPANY'S RESPONSE**

Beginning in the fourth quarter of 2016, a series of negative news reports on our Company were released to the market. On October 31, 2016, the South China Morning Post reported an adverse news article on the Company, stating that half of its production capacity had been halted due to environmental issues. On November 22, 2016, the 2016 Negative Report, an anonymous short report containing negative allegations regarding the Company's negative free cash flow, high gearing, undisclosed related party transactions, and environmental issues, was posted on a special purpose website hongqiaoexposed.com. On February 28, 2017, Emerson Analytics released the First 2017 Negative Report, a short-selling report that contained key allegations that our Company's profitability was largely exaggerated by the under-reporting of production costs and hidden subsidies from related party transactions.

Following release of the First 2017 Negative Report, the price of our Company's Shares on the Hong Kong Stock Exchange fell approximately 8% on March 1, 2017. On February 28, 2017 and March 6, 2017, our former auditors, Ernst & Young, issued letters to the Board and the Audit Committee of our Company containing its Audit Findings. On March 21, 2017, we announced that the publication of our audited annual report for 2016 would be delayed to allow us to address issues that had been raised and effective at 9 am on March 22, 2017 trading in our shares on the Hong Kong Stock Exchange was suspended.

To help investigate and confirm the issues involved, we engaged BT Risk Assurance, an independent third party professional service firm, to carry out certain agreed-upon procedures in relation to the allegations in the Negative Reports and the Audit Findings, in accordance with the Hong Kong Standard on Related Services 4400 – "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

BT Risk Assurance carried out these agreed-upon procedures and presented its findings to the Board and the Audit Committee of the Company in July 2017. Based upon the agreed-upon procedures it performed, BT Risk Assurance did not identify any material discrepancies or anomalies in the Company’s cost reporting, related party transaction disclosure, liquidity profile/cash balance, CAPEX and profitability, tracing back to 2013. The following chart summarizes some of BT Risk Assurance’s key findings:

**I. 2017 Negative Reports**

<u>Key Allegations in Report</u>	<u>BT Risk Assurance’s investigation and findings</u>
A. Under-reporting of costs	
1. Under-reporting cost of self-supplied electricity	
a. Power-generation cost was 40% higher than disclosed cost. . . . .	No discrepancy or anomaly was perceived after the investigation of all of the Company’s power generating entities with sample checking on their purchasing cost of coal, salary cost and depreciation of fixed assets
b. Disclosed power unit cost was not in line with the price trend of coal. . . . .	The investigation showed that the power unit cost of the Company was basically consistent with coal price trends from 2013 to 2016
c. Report assumed that coal cost accounted for 70% of total power generation cost . .	Based on the coal cost calculation and sample testing of the Company’s coal purchases, this assumption was not correct.
d. The Company had no large-scale power generator with the capacity over 600MW	BT Risk Assurance found this not true, after an on-site inspection and review of supporting documents which showed the existence of such large-capacity power generator.
e. The cost of the Company’s power is under-reported as illustrated by (1) it is 1/3 lower than State Grid price or its peers’ cost; (2) an ex-employee of the Company disclosed that the Company’s power cost in 2015 was actually higher; and (3) such cost level is not in line with an industry expert’s assumption . . . . .	BT Risk Assurance’s did not find any anomalies after independent analysis of the Company’s power cost based on their sample testing. According to BT Risk Assurance’s analysis, key reasons of the Company’s competitive power cost are (1) the Company’s self-owned power distribution grid network resulted in no on-grid charge to the State Grid and lowered transmission and distribution cost; (2) the Company’s power generators can generate the by-product of steam, which can be used to meet the heat requirement for its alumina production and reduce the Company’s overall power generation cost; and (3) the utilization rate of the Company’s power-generators are higher than industry peers.
f. The Company’s historical coal price is lower than the corresponding Qinhuangdao spot price for coal. . . . .	BT Risk Assurance opined that they would not compare Qinhuangdao spot price (mainly for the coal sourced from Datong via railway) with the Company’s purchasing cost of coal because the Company sources its coal mainly from Xinzhou, Yangquan, and Jinzhong in Shanxi via road transportation. Hence, they are not comparable.

**Key Allegations in Report**

**BT Risk Assurance’s investigation and findings**

- 2. Under-reporting cost of electricity purchased from suppliers
  - a. The Company purchases electricity from Gaoxin at a price lower than that supplier’s own production cost. . . . .
 

BT Risk Assurance compared the price of (1) electricity for industrial purpose in the region; (2) the Company’s self-supplied electricity; (3) Gaoxin’s electricity selling price to the Company and (4) the on-grid price set by the government. BT Risk Assurance concluded that Gaoxin’s electricity selling price was similar as the on-grid price, which is reasonable.
  
- 3. Under-reporting cost of alumina purchased from the suppliers
  - a. The Company purchases alumina from Gaoxin, an undisclosed related party, at a price lower than market price constituting a subsidy to the Company. . .
 

BT Risk Assurance concluded that Gaoxin is not a related party of the Company based on a review of public information records.

BT Risk Assurance also opined that the price of alumina supplied by Gaoxin was within a reasonable range, after comparing the price of (1) the Company’s self-supplied alumina; (2) alumina supplied by Gaoxin; and (3) then current market price of alumina.

Gaoxin offers preferential alumina prices to the Company mainly based on the commercial justifications of (1) a long term purchase contract has been entered into with the Company; (2) annual purchasing volume of the Company has been no less than 1 million tons; (3) the Company takes the goods delivery for transportation by itself; and (4) the Company places RMB400 million as minimum purchase order deposit with Gaoxin.
  
- 4. Under-reporting cost of self-supplied alumina
  - a. The Company under-reported the cost of its self-supplied alumina by RMB2.0 billion. . . . .
 

Based on BT Risk Assurance’s sample checking and independent analysis, they did not find any anomalies regarding cost reporting of the Company’s self-supplied alumina.



**Key Allegations in Report**

**BT Risk Assurance’s investigation and findings**

**B. Undisclosed related party and connected transactions**

1. The Company’s supplier, Gaoxin, is an undisclosed related party, which transferred interest and subsidy to the Company for window-dressing the latter’s profitability. . . . .

As mentioned above, BT Risk Assurance concluded that Gaoxin is not a related party of the Company.

2. The Company’s purchase of a 100% stake of Binzhou Binbei from a related party of which the senior management team and owners also held managerial roles at the Company.. . . .

Based on a review of information on the acquisition and verification of documents including labor contracts, corporate credit information reports and annual returns of relevant companies in Hong Kong, BT Risk Assurance did not find any anomalies in the Company’s explanations of why such transaction was not a related-party transaction.

**C. Non-existence of cash balance and excessive debt levels**

1. Approximately RMB4.9 billion of the Company’s reported cash balance did not exist as demonstrated by the Company’s effective deposit interest rate being below the “normal bank deposit rate” . .

Based on its procedures, including sample testing on the Company’s interest income and obtaining copies of the Company’s financial accounts and bank statements of the Company’s PRC banks, BT Risk Assurance did not identify any shortfalls in the relevant bank balances of the Company.

BT Risk Assurance found the projected bank balances on the amount of interest alone to be inappropriate and the consequent analysis set out in the 2017 Negative Report alleging that the Company falsely reported its cash assets does not have sufficient basis.

2. The Company continuously booked negative free cash flow with significant debt size increase. . . . .

BT Risk Assurance reported that the Company’s negative free cash flow with debt size growth in past years was mainly attributable to the Company’s capacity expansion in aluminum, alumina, captive power plants, etc. to achieve its vertical integration. BT Risk Assurance views the Company’s liquidity risk as manageable.

**D. Other allegations such as increasing CAPEX, over-estimated profitability, etc.**

1. The Company’s profitability and margins are over-stated, as the consequence of under-reporting of its cost and pricing transfer from Gaoxin, an undisclosed related party.. . . .

See above.

2. The Company’s capital expenditures have continued to increase . . . . .

BT Risk Assurance performed sample checking of the Company’s CAPEX without any discrepancy perceived.

## II. 2016 Negative Report

### Key Allegation points in Report

### BT Risk Assurance's investigation and findings

- |   |  |
|---|--|
| A. The Company has consistently failed to generate free cash flow and has accumulated a massive debt load   | BT Risk Assurance reported that the Company's negative free cash flow with debt size growth in past years was mainly attributable to the Company's capacity expansion in aluminum, alumina and captive power plants. BT Risk Assurance views the Company's liquidity risk is manageable. |
| B. Gaoxin, is an undisclosed related party and transferred profit to the Company via its electricity sales to the Company at a price lower than its production cost | See explanation in section I.A(3)(a) above.  |
| C. The Company made two large, undisclosed related-party acquisitions.  | BT Risk Assurance found no evidence indicating that the Company carried out an undisclosed related party acquisition. See explanation in section I.B(2) above.   |
| D. There was no disclosure that the Company had been ordered to cease 70% of its production capacity due to environmental issues.                                   | BT Risk Assurance reviewed written confirmation issued by Shandong Environmental Protection Bureau on November 24, 2016 which certifies that the rectification of all of the Company's projects involving environmental rectification had been duly completed.                           |

As such rectification had no material negative impacts on the Company's business operation and financial profile, the Company did not disclose to the public which BT Risk Assurance did not deem unreasonable.

On the basis of our internal investigations and the findings of BT Risk Assurance, the Directors have concluded the allegations and information contained in the Negative Reports are biased, materially misleading, untrue and unfounded. We provided a detailed refutation of the allegations contained in the Negative Reports in a number of public announcements, including the announcements of the Company dated November 23, 2016 and December 20, 2016, October 25, 2017, November 12, 2017 and November 14, 2017.

On June 20, 2017, our Board received a letter from the Hong Kong Stock Exchange setting out the conditions for the resumption of trading of our shares, which included: (a) addressing the Audit Findings and clarifying the allegations set out in the Negative Reports; (b) publishing all outstanding financial results and addressing any audit qualifications; and (c) informing the market of all material information. On October 30, 2017, all the conditions for resumption of trading having been fulfilled to the satisfaction of the Hong Kong Stock Exchange, trading of our shares on the Hong Kong Stock Exchange was resumed.

In addition, we have formally filed a lawsuit against Emerson Analytics, persons responsible for publishing the 2017 Negative Report, among others, on [www.emersonanalytics.co](http://www.emersonanalytics.co) and the host of such website in court in Hong Kong. In addition, the Company filed for an injunction against the defendants further speaking of or publishing or causing the publication of and/or howsoever participating in the publication of or distribution of the Negative Reports until after trial, and successfully obtained such injunction order from the High Court of Hong Kong on December 11, 2017.

## **LEGAL PROCEEDINGS**

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the date of this offering circular, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened material arbitration, litigation or administrative proceedings against us.

## **CHANGE OF AUDITORS**

Deloitte Touche Tohmatsu (“Deloitte”), which had served as the auditors of the Company since 2010, resigned as the auditors of the Company with effect from June 12, 2015. The reason for this resignation was the inability of Deloitte and the Company to reach consensus regarding the audit fee for the year ended December 31, 2015. Deloitte confirmed in writing that there are no matters in relation to its resignation as the Company’s auditors that need to be brought to the attention of the shareholders or creditors of the Company. The Board also confirmed that there were no disagreements or outstanding matters between the Company and Deloitte, and that the Board was not aware of any other matters in relation to the change of auditors that need to be brought to the attention of the shareholders or creditors of the Company.

Following the recommendation from the Audit Committee of the Company, the Board appointed Ernst & Young as the new auditors of the Company to fill the vacancy as a result of the resignation of Deloitte to hold office until the conclusion of the next annual general meeting of the Company. Ernst & Young served as the Company’s auditor from June 12, 2015 to April 27, 2017.

After becoming aware of the 2016 Negative Report and then the First 2017 Negative Report, Ernst & Young issued letters setting out certain Audit Findings and recommending that the Company arrange for an independent investigation with respect to such Audit Findings and the allegations made in the Negative Reports. After considering the results of an initial internal investigation of the Company with respect to the Audit Findings identified by Ernst & Young, the Audit Committee was of the view that the Audit Findings did not provide sufficient basis for the Company to conduct an independent investigation. At the recommendation of the Audit Committee, the Board decided to engage BT Risk Assurance to perform certain agreed-upon procedures in relation to the Audit Findings and the allegations contained in the Negative Reports. See “– Negative Report and Company’s Response.” Citing the inability of the Company and Ernst & Young to reach a consensus in relation to an independent investigation, Ernst & Young resigned as the auditors of the Company with effect from April 27, 2017. The Board appointed SHINEWING (HK) CPA Limited as the new auditors of the Company on August 31, 2017.

## REGULATION OVERVIEW

This section summarizes the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our aluminum production manufacturing and sales in the PRC and the relevant environmental protection, taxation, labor and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

### Entry Conditions and Industry Policies

The Standard and Condition on Aluminum Industry (鋁行業規範條件)(the “Standard”) was promulgated by Ministry of Industry and Information Technology of the People’s Republic of China and came into force on July 18, 2013. The Standard applies to all enterprises involved in bauxite mining, aluminum smelting and aluminum processing in the PRC, and sets out certain conditions that must be satisfied by any enterprise for entering the aluminum industry, including, among other things, conditions with respect to the enterprise’s scale of operation, technical processes, facilities, consumption of energy and resources, environmental protection and production safety. Enterprise operating bauxite mining, alumina, electrolytic aluminum and recycled aluminum can apply, as the manner as permitted by Standard, for reviewing by Ministry of Industry and Information Technology to confirm whether it has met the conditions as provided in the Standard. Names of the enterprises operating bauxite mining, alumina, electrolytic aluminum and recycled aluminum that meet such conditions will be announced to the public. The Regulation on Entry Conditions of Aluminum Industry (鋁行業准入條件) promulgated in October 29, 2007 was abolished and replaced by the Standard Regulation.

According to the Notice of Guiding Opinions on Intensifying Structural Adjustments of the Aluminum Industry (關於加快鋁工業結構調整指導意見的通知) issued by, among others, the NDRC, Ministry of Finance, Ministry of Land Resources (Fa Gai Yun Hang [2006] No. 589), as well as the Plan to Adjust and Reinvigorate Non-ferrous Metal Industries (有色金屬產業調整和振興規劃), issued by the General Office of the State Council in January 2009, the state government encourages aluminum production which is of high efficiency, low cost, low energy consumption, short processing cycle and is environmentally friendly. In addition, it encourages developing advanced aluminum fabrication products and calls for enhanced stability, reliability and cost reduction in aluminum production. The foregoing industry policies are intended to promote the integration of related businesses and development of high manufacturing standards at approved industrial bases, thereby improving their competitiveness.

Pursuant to the requirements of the Guiding Opinions on Further Improvement in Financial Services Support for Key Industries and Adjustment Revival and Control of Industries with Excess Capacity (關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見)(the “Guiding Opinions”), no credit support will be provided to projects that do not comply with the industry policies or Entry Conditions or those that do not meet the requirements of technology or capital adequacy. The enterprises or projects which are not in compliance with the Guiding Opinions and the Regulation, or industries that have been stated to have overcapacity, are prohibited from obtaining financial support through issuing new corporate bonds, short-term debentures, mid-term bills, convertible bonds and shares or an increase in the share capital.

The government of Zouping County approved the Decision on Establishment of Large-scale Aluminum Industry Cluster in Zouping Economic Development Zone (關於開發區建設國內大型鋁產業集群基地的決定)(the “Decision”), on January 8, 2009, pursuant to which Zouping County decided to establish and develop a large-scale aluminum cluster in Zouping Economic Development Zone. The Decision involves plans to develop the local aluminum industry cluster by taking advantage of the existing large number of aluminum industry enterprises in Zouping County and is in line with the energy-saving and emission reduction requirements of the State. In order to achieve the aforesaid goal, Zouping Economic Development Zone shall take steps to ensure steady and sufficient supply of alumina within the cluster, and make full use of the existing energy advantage of Gaoxin, and shall reorganize and consolidate the alumina production capacity within the cluster.

The People's Government of Zouping County has prepared the Development Plan of Aluminum Industry Cluster in Zouping County (鄒平縣鋁產業集群發展規劃), which was approved by the People's Government of Binzhou City on May 7, 2010 (the "Plan"). The overall objective of the Plan is to give effect to the existing aluminum industry advantage of Zouping County, and to develop the aluminum industry cluster into the most profitable cluster with the longest industrial chain in Zouping County and with the most advanced technology and the most effective energy saving and emission reduction. The Plan encourages companies to adopt business models with the most effective energy saving and emission reduction. It states that future aluminum-processing projects shall be planned and developed to allow aluminum processing enterprises to source sufficient raw materials within the cluster. The Plan identifies certain companies and aluminum industry projects with a relatively large production scale which are in compliance with laws, relevant policies and the objective of the Plan, and confirms such companies or projects are entitled to enjoy the encouragement policy under the Plan. All of our domestic subsidiaries and our existing projects and projects under construction as existed on the date of the approval of Plan are identified as encouraged companies or projects pursuant to the Plan.

We believe that our business operations comply with relevant government policies, and the policies summarized above will not have material adverse impact on our operations. However, we are of the view that, if applicable laws and regulations change adversely and the relevant regulatory authorities change their understanding or enforcement of relevant policies in the future, we may be required to obtain further approvals or to meet other additional requirements, as a result of which we may be required to incur a significant level of expenditure for the purposes of, including but not limited to, upgrading our equipment, technology and production process. See "Risk Factors – Risks Relating to Our Industry – Future changes in laws, regulations or enforcement policies in China could adversely affect our business."

### **Environmental Protection**

The Environmental Protection Law of the PRC (中華人民共和國環境保護法)(the "Environmental Protection Law"), which was promulgated and came into force in 1989, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The State Environment Protection Administration of the PRC (中華人民共和國國家環境保護總局), which has been renamed as the Ministry of Environment Protection of the PRC (中華人民共和國環境保護部), is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste discharged in the PRC.

According to the Environmental Protection Law of the PRC, where the construction of a project may cause any pollution to the environment, an environmental impact assessment must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the Ministry of Environment Protection of the PRC shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending on the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. According to the Environmental Protection Law of the People's Republic of China revised in 2014, penalties include: fines, restricting production, suspending business for rectification, ordering cessation of business or closedown, ordering cessation of construction; ordering restoration to the original state, detention and; assuming tort liability where any damage is caused by environmental pollution or ecological disruption.

According to the Environmental Protection Law of the PRC and other relevant laws and regulations, the construction, renovation and extension of all aluminum-processing projects must strictly conform to all aspects of the environmental impact assessment system. Production and sales activities may only be conducted after the relevant project has been inspected and approved and the requisite Permit for the

Discharge of Pollutants has been issued. Furthermore, the Environmental Protection Law has been amended on April 24, 2014 and the amended Environmental Protection Law will become effective on January 1, 2015.

In addition, in the production and operation process, aluminum-processing enterprises must comply with the following laws and regulations related to environmental protection: the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); the Law of the PRC on the Prevention and Control of Pollution from Solid Wastes (中華人民共和國固體廢物污染環境防治法); the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法); and the Water Law of the PRC (中華人民共和國水法).

In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted advanced technologies and equipment to prevent and reduce pollution. All of our construction and extension projects comply with the relevant environmental impact assessment procedures for construction projects and have undergone inspection and have been approved by the relevant environmental protection authorities (where necessary). We have reported to and registered with the relevant environmental protection administration departments for pollutants discharge and have obtained the Permit for the Discharge of Pollutants.

### **Income Tax**

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)(the “EIT Law”) promulgated by the National People’s Congress on March 16, 2007 and effective as of January 1, 2008, amended on February 24, 2017, a uniform income tax rate of 25% is imposed on foreign investment enterprises and domestic enterprises.

Pursuant to the EIT Law and its implementation regulations, a resident enterprise is subject to enterprise income tax on income derived from both inside and outside the territory of the PRC. An organization or establishment set up by a nonresident enterprise in the PRC is subject to enterprise income tax on income derived from such organization or establishment in the PRC and on income derived from outside the PRC which is connected with such organization or establishment in the PRC. For a nonresident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, its income derived in the PRC will be subject to enterprise income tax at the rate of 10%.

In addition, the Notice of the State Administration of Taxation on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the “de facto Management Bodies” Standard (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which was promulgated on April 22, 2009 and has retroactive effect from January 1, 2008, amended on December 29, 2017, provides specific tests regarding under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC. In 2009 the State Administration of Taxation issued guidance regarding the determination of the location of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises. However, it is unclear whether this guidance also reflects the State Administration of Taxation’s criteria for determining the location of the “de facto management bodies” for foreign enterprises that are not controlled by PRC enterprises (such as our Company). Although it is unclear under PRC tax law whether we have a “de facto management body” located in China for PRC tax purposes, we currently take the position that we and our Hong Kong and BVI subsidiaries are not PRC resident enterprises for tax purposes. However, we cannot assure you that the tax authorities will agree with our position. We have been advised by our PRC legal advisors, AllBright Law Offices (Beijing), that there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we or the Subsidiary Guarantors are treated as a PRC resident enterprise, interest in respect of the Notes or payments under the guarantees may be treated as income derived from sources within the PRC and may be subject to withholding tax and gains from the transfer of Notes might be subject to PRC tax, at a rate

of 10% in the case of non-PRC resident enterprise holders (or 7% if the investors were Hong Kong residents) and at a rate of 20% in the case of non-PRC individual holders. In the event that we and/or our non-PRC subsidiaries are treated as a “resident enterprise” for enterprise income tax purposes, our and/or such subsidiaries’ worldwide income, excluding dividends received from PRC subsidiaries, will be subject to PRC income tax.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), residents of counterparties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a PRC resident company paying dividends may be subject to taxation on such dividends at reduced tax rates provided by the applicable tax treaty. Any residents of the counterparties qualified to enjoy such tax benefits must: (1) be an enterprise subject to taxation on dividends in accordance with such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such PRC resident company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the PRC resident company.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), (the “Tax Arrangement”), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect of the payment of dividends by such PRC enterprise to such Hong Kong enterprise may be reduced to 5% if the Hong Kong enterprise is the beneficial owner of the income and the PRC authorities approve the reduced rate. Otherwise, the withholding tax rate is 10% for the relevant dividends. We will be required to pay Additional Amounts with respect to PRC withholding tax on interest payments, subject to certain exceptions. See “Description of the Notes – Additional Amounts.”

Our PRC subsidiaries shall pay taxes to the competent tax authorities in accordance with the EIT Law. Currently, our PRC subsidiaries are not subject to any favorable treatment regarding Enterprise Income Tax and the applicable tax rate is 25%. The withholding tax rate with respect to the payment of dividends by our PRC subsidiaries to Hongqiao Hong Kong is 5%. We may be required to make additional tax payments and pay penalties if we fail to fulfill our tax liabilities. As of the date of Latest Practicable Date, no penalty has been imposed on us or our subsidiaries due to violation of tax laws and regulations. We have obtained Tax Registration Certificates according to the relevant laws and regulation and there is no expiry date in respect of those certificates.

## **VAT**

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例) and its implementation regulations as amended on November 19, 2017 by the State Council, and its implementation regulations, unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate is 17%. Our PRC subsidiaries are required to pay the VAT for sale of aluminum products. Currently, our PRC subsidiaries are subject to a VAT rate of 17% on the sales revenue of our products in general (11% for the steam sold by Aluminum & Power). According to provisions in the Notice on Adjusting the Value-added Tax Rates (Caishui [2018] No. 32)(《關於調整增值稅稅率的通知》(財稅[2018]32號)) issued by the State Administration of Taxation, Ministry of Finance, where taxpayers make VAT taxable sales or import goods, the applicable tax rates shall be adjusted from 17% to 16% and from 11% to 10%, respectively. The Notice will take effect on May 1, 2018, and the adjusted VAT rates I.C. will take effect at the same time according to the Notice.

## **Urban Maintenance and Construction Tax and Education Surcharge**

Pursuant to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), effective from

December 1, 2010, the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax (城市維護建設稅暫行條例), promulgated in 1985, the Provisional Rules on Levy of Education Surcharge (徵收教育費附加的暫行規定), promulgated in 1986, and other regulations and rules promulgated by the State Council and other competent authorities of the relevant financial and tax authorities shall apply to foreign-invested enterprises, foreign enterprises and foreign individual.

Pursuant to Provisional Regulations of the PRC Urban Maintenance and Construction Tax (城市維護建設稅暫行條例) released on February 8, 1985 and Decisions on Repealing and Amending Certain Administrative Regulation (關於廢止和修改部分行政法規的決定) released on January 8, 2011, any entity and individual that pays consumption tax, value-added tax, or business tax shall pay urban maintenance and construction tax simultaneously based on the amount of consumption tax, value-added tax, and business tax actually levied on such entity and individual. If a taxpayer is located in the urban areas, the rate is 7%; if a taxpayer is located in counties and towns, the rate is 5%; and if the taxpayer is located in places other than urban areas, counties or towns, the rate is 1%.

Pursuant to Provisional Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定) promulgated on July 1, 1986, revised on January 8, 2011, the tax rate of the education surcharge is 3% based on the amount of the value-added tax, business tax and consumption tax actually levied on all entities and individuals and the education surcharge shall be paid with the foregoing taxes simultaneously.

#### **Labor Law and Labor Contract Law**

Pursuant to the Labor Law of the PRC (中華人民共和國勞動法)(the “Labor Law”) effective as of January 1, 1995, amended on August 27, 2009, laborers are entitled to equality in employment and right to choose occupations, right to obtain remuneration, right to rest and enjoy holidays, rights to be provided with safety workplace and health protection, right to receive vocational skill training, right to enjoy social insurance and social benefits, right to submit labor disputes for handling as well as other entitlements prescribed by law. Laborers shall fulfil their labor tasks, improve their vocational skills, follow rules on occupational safety and health and observe labor discipline and professional ethics. Employing units shall set up and perfect regulations and systems according to law and ensure that laborers shall have the right to labor and perform their obligation.

Pursuant to the Labor Contract Law of the PRC (中華人民共和國勞動合同法)(the “Labor Contract Law”) effective as of January 1, 2008, which was amended on December 28, 2012 and effective in July 2013, and its implementation regulations, labor contracts shall be entered into if labor relationships are to be established between the employers and the laborers. The employers cannot require the laborers to work beyond the time limit and shall provide in a timely manner the wages which are not lower than local standards on minimum wages to the laborers. The employers shall establish and perfect its system for labor safety and sanitation, strictly abide by rules and standards on labor safety and sanitation, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall meet such standards. The employers shall provide laborers with a safe and sanitary work environment meeting the State’s stipulations and necessary equipment for labor protection.

Our PRC subsidiaries are required to protect their employees’ labor rights in accordance with the Labor Law. These subsidiaries shall enter into labor contracts with their employees, and pay salaries, provide social insurance and safety and healthy work conditions and ensure their employees’ rights for holiday in accordance with the contractual commitments. We are required to ensure adequate expenditures in order to comply with the above requirements on labor employment. If we fail to safeguard the legitimate rights of our employees to, among other things, wages, rest and holidays, or if we fail to enter into any labor contracts in writing with any employees according to the Labor Contract Law and comply with the terms of the respective labor contracts, we would be subject to penalties by competent authorities, including orders for correction and fines, and we may be obliged to compensate the respective



employees. Our financial conditions and operating results may be adversely affected accordingly. As of December 31, 2017, we had not been subject to any material administrative penalties due to violation of the Labor Law, the Labor Contract Law and related regulations.

We are required to obtain Social Insurance Registration Certificate for the provision of social insurance to our employees.

### **Production Safety**

Pursuant to the Production Safety Law of the PRC (中華人民共和國安全生產法)(the “Production Safety Law”), effective from November 1, 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that does not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipment that meets national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations as well as operation procedures of the relevant units regarding safety.

We are required to commit a certain amount of expenditures to comply with the above production safety regulations. Should there be any industrial accidents due to noncompliance of the Production Safety Law and related regulations, we may be subject to penalties imposed by competent authorities and liable to any compensation arising therefrom. Our goodwill in the market may also be adversely affected. On the other hand, continuous compliance with the requirements of production safety will reduce the operating risks of our Group and will be conducive to the enhancement of our operating results. We have adopted all necessary measures to ensure the production safety in the workplace and we undertake to comply with the relevant laws and regulations on production safety. Furthermore, the Safety Law has been amended on August 31, 2014, and the amended Safety Law will become effective on December 1, 2014.

### **Foreign Exchange**

Pursuant to the Regulations on the Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理條例) amended on August 1, 2008 by the State Council and implemented since August 5, 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and terms related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be made based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or transferred to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals propose to make onshore direct investments, they shall complete registration with the foreign exchange administrative authority upon approval of the relevant competent authorities. As a foreign-invested enterprise, Shandong Hongqiao has obtained a foreign exchange registration certificate which did not specify any expiry date.

If onshore institutions or onshore individuals propose to make an offshore direct investment or offshore issuance or trading of securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department under the State Council. The foreign currency and the RMB converted from foreign currency under the capital accounts should be applied as approved by the relevant foreign exchange administration governmental authorities. Our PRC subsidiaries are

required to abide by the relevant regulations on administration of foreign exchange. As of December 31, 2017, our Company has not been imposed any administrative penalties due to violation of foreign exchange laws and regulations.

SAFE issued the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (including its appendixes), or Circular 37, effective on July 4, 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or Circular 75. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity being referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

### **Law of Wholly Foreign-Invested Enterprises**

Pursuant to the Law on Wholly Foreign-invested Enterprises of the PRC (中華人民共和國外資企業法) as amended and implemented by the Standing Committee of the National People's Congress on October 31, 2000 amended on September 3, 2016, and the Rules for the Implementation of the Law on Wholly Foreign-invested Enterprises of the PRC (中華人民共和國外資企業法實施細則) as amended by the State Council on April 12, 2001 and February 19, 2014 and effective on March 1, 2014, investments, profits and other legal interests made by foreign investors within China, shall be protected by the PRC law; a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with the PRC tax laws as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax) until the accumulated amount reserved reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered; undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year. As a wholly foreign-invested enterprise, Shandong Hongqiao is required to comply with the regulations of the Law on Wholly Foreign-invested Enterprises of the PRC and the implementation rules in respect of the establishment and operation of its business.

### **Product Quality Law**

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) as amended by the Standing Committee of the National People's Congress on July 8, 2000 and implemented since September 1, 2000, amended on August 27, 2009, a producer shall establish proper internal regulatory system for the management of product quality, strictly implement position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard inspections. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and other defective products that have been reported by consumers or relevant organizations. We are required under this law to produce aluminum products in accordance with product quality standards. In case of any defective quality issues of our products, we may be subject to complaint or legal proceedings and thus be liable to compensations and resulting legal costs, as well as penalties from competent authorities. Our goodwill in the market may also be adversely affected. Our Company's financial conditions and results of operations may be adversely affected accordingly. We will be required to

obtain a production license for our aluminum flat-rolled products and aluminum extrusion products to be produced in our Binzhou manufacturing base in the future, and those products shall also meet the specified quality standard.

## DIRECTORS AND SENIOR MANAGEMENT DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of our Board of Directors:

Name	Age	Position
ZHANG Shiping . . . . .	71	Chairman and executive Director
ZHENG Shuliang . . . . .	71	Vice chairman and executive Director
ZHANG Bo . . . . .	48	Chief executive officer and executive Director
ZHANG Ruilian . . . . .	40	Vice president, chief financial officer and executive Director
YANG Congsen . . . . .	48	Non-executive Director
ZHANG Jinglei . . . . .	41	Non-executive Director
XING Jian . . . . .	68	Independent non-executive Director
CHEN Yinghai . . . . .	58	Independent non-executive Director
HAN Benwen . . . . .	67	Independent non-executive Director
Dong Xinyi . . . . .	41	Independent non-executive Director

### Executive Directors

**Mr. Zhang Shiping** (張士平), aged 71, was appointed the chairman and an executive Director of our Company on January 16, 2011. He joined our Group in July 1994 and is the founder of our Group. Mr. Zhang joined Aluminum & Power in December 2002 as a director. He has eleven years of experience in aluminum industry since the commencement of aluminum business in 2006. He is responsible for the overall strategic planning of our Group. He graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a diploma in cotton testing in December 1991. He is recognized as a qualified senior economist by the Shandong Economic Professional and Technical Title Senior Evaluating Committee (山東省經濟專業職務高級評審委員會) in 1989. Mr. Zhang Shiping has been the director of Shandong Hongqiao since July 1994. He served as the general manager of Chuangye Group (including its predecessor) from March 1996 to April 1998, the chairman of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (“Weiqiao Textile”, Stock Code: 2698.HK) (including its predecessor) from May 1998 to October 2000, a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) (“Binzhou Industrial Park”) from November 2001 to May 2010, the chairman of Binzhou Weiqiao Aluminum Technology Co., Ltd. (濱州魏橋鋁業科技有限公司) from December 2002 to September 2007 and the party secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) from March 1998 to February 2004. He is currently the chairman of Chuangye Group, a non-executive director of Weiqiao Textile, the chairman of Shandong Weiqiao Investment Holding Limited (山東魏橋投資控股有限公司) (formerly named as Zouping Supply and Marketing Investment Co., Ltd (鄒平供銷投資有限公司)), the chairman of Hongqiao Holdings and the chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (魏橋創業(香港)進出口有限公司). He was a deputy to the 9th, 10th and 12th National People’s Congress and was selected by the State Council as “National Model Worker in 1995”. In 2016, he was awarded as “Top Ten Economic Figures of China in 2015”. He is the husband of Ms. Zheng Shuliang, the father of Mr. Zhang Bo and the father-in-law of Mr. Yang Congsen.

**Ms. Zheng Shuliang** (鄭淑良), aged 71, was appointed the vice chairman and an executive Director of our Company on January 16, 2011. She joined our Group in July 2009 and has been a director and vice chairman of Shandong Hongqiao. She held the positions of the section chief, director of metering division of raw materials purchase department and deputy director of raw materials supply department of Chuangye Group (including its predecessor) from November 1996 to June 1999, director of metering department of Chuangye Group from June 1999 to June 2001. She is the wife of Mr. Zhang Shiping, the mother of Mr. Zhang Bo and the mother-in-law of Mr. Yang Congsen.

**Mr. Zhang Bo** (張波), aged 48, was appointed an executive Director and chief executive officer of our Company on January 16, 2011. He graduated from Shandong Broadcast and Television University (山東廣播電視大學) majoring in financial accounting and obtained a bachelor’s degree in economics in August 1996. He also obtained a master degree in software engineering in Wuhan University (武漢大學) in June 2005. He joined our Group in 2006 and has been the general manager and the chairman of

the board of directors of Aluminum & Power since November 2006. Mr. Zhang Bo has ten years of experience in aluminum industry. He is familiar with the aluminum industry and has been equipped with the expertise in the aluminum industry. He is responsible for overseeing our Group's general operation, for our Group. He has more than eighteen years of management experience. He had also been the deputy general manager of Chuangye Group from April 1998 to February 1999, general manager, executive director, chairman of Weiqiao Textile (including its predecessor) from March 1999 to September 2006, a director of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) from July 2001 to May 2010 and the chairman and general manager of Binzhou Industrial Park from November 2001 to May 2010. He is currently a director of Chuangye Group, a director of Hongqiao Trading since April 2012 and a director of Hongqiao Investment (Hong Kong) Limited since January 2015. He is a deputy to the People's Congress of Shandong Province, vice president of China Non-ferrous Metals Industry Association since March 2015 and vice-chairman of the International Aluminum Institute since November 2016. He was selected by the State Council as "National Model Worker" in 2010. Mr. Zhang Shiping is his father and Ms. Zheng Shuliang is his mother, and Mr. Yang Congsen is his brother-in-law.

**Ms. Zhang Ruilian (張瑞蓮)**, aged 40, is an executive Director, vice president and the chief financial officer of the Company. She was appointed an executive Director in December 11, 2017. She joined the Group in June 2006 and has over 16 years of accounting experience. She graduated from Shandong Economic Management School of Light Industry (山東省輕工業經濟管理學校) and obtained the diploma in accounting in July 1996. She held positions of the manager of audit department of Chuangye Group from December 2005 to June 2006. She has been the head of financial department since June 2006 and the director of Aluminum & Power since December 2014. She has served as the manager of financial department of Shandong Hongqiao since February 2010, and a director of Hongqiao Trading Limited since April 2012.

#### **Non-executive Directors**

**Mr. Yang Congsen (楊叢森)**, aged 48, was appointed a non-executive Director of our Company on January 16, 2011. He graduated from Ocean University of Qingdao (青島海洋大學) and obtained a junior college diploma in international trade in July 1998. Mr. Yang obtained a master's degree of business administration from Dalian University of Technology (大連理工大學) in July 2006. He joined our Group in January 2007 and has over sixteen years of management experiences. He was responsible for the production and operation of the self-owned power plants of our Group and was also the deputy general manager of Aluminum & Power prior to the listing of our Company in 2011. He held the positions of the network administrator of human resources division of Chuangye Group (including its predecessor) from October 1997 to December 1999, head of thermal power plant of Chuangye Group from December 1999 to October 2003, and deputy general manager of Chuangye Group from January 2005 to June 2006. He is currently a director of Chuangye Group. He is the son-in-law of Mr. Zhang Shiping and Ms. Zheng Shuliang and the brother-in-law of Mr. Zhang Bo.

**Mr. Zhang Jinglei (張敬雷)**, aged 41, was appointed a non-executive Director of our Company on January 16, 2011. He joined our Group in January 2011. He graduated from Xi'an Engineering College (西安工程學院) and obtained the junior college diploma in proximate analysis in July 1997. He joined Weiqiao Textile (including its predecessor) in October 1997, and worked in the sales department of Weiqiao Textile (including its predecessor) from September 1998 to September 2000. He worked at the securities office, production technology section and the securities department of Weiqiao Textile from October 2000. He is currently an executive director and company secretary of Weiqiao Textile.

## Independent Non-executive Directors

**Mr. Xing Jian (邢建)**, aged 68, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院)<sup>3</sup> and obtained a university diploma in economics and management in December 1995. He held the positions of deputy secretary and secretary of Weiqiao Town of Zouping County from August 1982 to October 1985, deputy mayor of Zouping County from October 1985 to February 1987, deputy secretary and county mayor of Gaoqing County from February 1987 to January 1994, director and party secretary of Audit Bureau of Zibo City of Shandong Province from July 1994 to March 1999, deputy commissioner and party secretary of Special Commissioner Office of National Auditing Administration in Jinan from April 1999 to January 2001, deputy director of Head Office Service Bureau of National Auditing Administration from January 2001 to May 2002, director of Building Materials Auditing Bureau of National Auditing Administration from May 2002 to August 2008 and auditor of Social Insurance Auditing Bureau of National Auditing Administration from August 2008 to June 2009.

**Mr. Chen Yinghai (陳英海)**, aged 58, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from the School of Textile Science and Technology of Beijing Union University (北京聯合大學紡織工程學院) majoring in wool spinning and weaving and obtained the bachelor degree in engineering in July 1987. He held the position of the deputy section head of China Non-cotton Yarns & Fabrics Import & Export Co. (中紡化纖毛麻進出口公司) from December 1990 to April 1991, employer of Chinatex Industry Co., Ltd (中紡實業有限公司) from May 1991 to November 1994, general manager of Chinatex Singapore Trading Co., Ltd (中紡新加坡貿易有限公司) from December 1994 to November 1997, general manager of Chinatex Cotton Yarns and Fabrics Import & Export Corp. (中紡紗布進出口公司) from March 1998 to December 2000, director of representative office of Chinatex in Shanghai (中國紡織品進出口總公司) from March 2003 to May 2004. He is currently an executive director of RFH Equities Co., Ltd (融豐行投資有限公司) since October 2001.

**Mr. Han Benwen (韓本文)**, aged 67, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from Shandong University (山東大學) and obtained a certificate in foreign economy in May 1994. He is a certified public accountant recognised by the Shandong branch of the Chinese Institute of Certified Public Accountants (山東省註冊會計師協會) and is a qualified middle level auditor. Mr. Han worked in Zouping County Audit Bureau (鄒平縣審計局) as a clerical officer from August 1985 to December 1999 and in Shandong Jianxin Certified Public Accountants Corporation (山東鑾鑫會計師事務所有限公司)(formerly known as Zouping Jianxin Certified Public Accountants Corporation) as an accountant from December 1999 to February 2007. He is currently working in Zouping Hongrui Accounting & Consulting Services Center (鄒平宏瑞會計諮詢服務中心) as an accountant since February 2007.

**Mr. Dong Xinyi (董新義)**, aged 41, was appointed an independent non-executive Director of our Company on December 11, 2017. He graduated from Northwest Institute of Politics and Law (西北政法學院, currently known as Northwest University of Politics and Law (西北政法大學)) in Xi'an, Shaanxi Province, the PRC with a bachelor of law degree majoring in international economic law in July 2000; from Korea University in Seoul, Korea with a master of law degree in August 2006 and the degree of doctor of philosophy in law in August 2009, respectively. Mr. Dong served as a clerk at the civil and administrative procuratorial office, the People's Procuratorate of Huangdao District, Qingdao City, Shandong Province from July 2000 to March 2004. He served as the department head of the legal affair department of Sino-Korea Future Urban Development Co., Ltd. (韓中未來城市開發株式會社) in Korea from July 2009 to July 2010. He served as a postdoctoral researcher at Law School of Renmin University of China (中國人民大學) from July 2010 to June 2012. Since July 2012, Mr. Dong has been

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<sup>3</sup> Mr. Xing Jian was admitted to the Correspondence Institute of the Party School of the Central Committee of C.P.C. in August 1993 as a correspondence student, and he took the courses by correspondence. After passing all the courses required, Mr. Xing Jian obtained his diploma in December 1995.

serving in various positions at Central University of Finance and Economics (中央財經大學, the “CUFE”), including as a teaching staff and an associate professor. He has concurrently been serving as the deputy head of the Research Center for Internet and Informal Finance Laws of CUFE (中央財經大學互聯網金融與民間融資法治研究中心) since May 2015 and the head of Research Center for Technology and Finance Law of CUFE (中央財經大學科技與金融法律研究中心) since June 2017. He has also been the director of Beijing Institute of Financial Services Law (北京市金融服務法學研究會) since December 2014, an attorney at Beijing King & Capital Law Firm (北京市京都律師事務所) since February 2016, and the director of Institute of Securities Law of China Law Society (中國法學會證券法學研究會) since April 2017.

### **Senior Management**

**Mr. Deng Wenqiang** (鄧文強), aged 46, is the vice president of our Company. He graduated from Kunming University of Science and Technology (昆明理工大學) and obtained a bachelor’s degree in non-ferrous metal metallurgy in July 1995 and is a qualified engineer. Mr. Deng Wenqiang joined our Group in January 2003. He is responsible for the production and the research and development of aluminum products of our Group. He previously held the positions of workshop director, vice factory director and factory director of Aluminum & Power from January 2003 to June 2006. He is currently the deputy general manager of Aluminum & Power and deputy general manager of Shandong Hongqiao, the executive director and manager of Huimin Huihong and executive director and manager of Binzhou Beihai Huihong New Aluminum Profiles Co., Ltd. (濱州北海匯宏新材料有限公司). In 2000, he was awarded the first prize for his quality control achievements by Shandong Province Metallurgical Industry Corporation. In 2005, he was recognised as the Advanced Individual of Science and Technology Work by Shandong Province Metallurgical Industry Corporation. He was elected as the representative of the 15th People’s Congress of Zouping County and the 9th People’s Congress of Binzhou Municipality.

### **Company Secretary**

**Ms. Zhang Yuexia** (張月霞), aged 42, was appointed the secretary of our Company on January 16, 2011. She graduated from Binzhou Normal Specialised Postsecondary College (濱州師範專科學校), majoring in foreign trade English, and obtained a junior college degree in July 1998. She has over fifteen years of accounting experience. She held the positions of the manager and section chief of accounting department of Chuangye Group from December 2001 to July 2009 and the deputy manager of the securities department of Weiqiao Textile from March 2008 to January 2010. She is currently the director of Hongqiao Trading since April 2012. Ms. Zhang Yuexia had not served any position in our Group prior to January 16, 2011.

### **Board Committees**

We have established the following three committees in our Board of Directors: an audit committee, a nomination committee and a remuneration committee. The committees operate in accordance with terms of reference established by our Board of Directors.

#### ***Audit Committee***

Our audit committee consists of four independent non-executive Directors: Mr. Han Benwen, Mr. Xing Jian and, Mr. Chen Yinghai and Mr. Dong Xinyi. The chairman of the audit committee is Mr. Han Benwen. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

### ***Nomination Committee***

We have established a nomination committee with written terms of reference. The current members of the nomination committee are Mr. Zhang, Mr. Han Benwen, Mr. Xing Jian and Mr. Dong Xinyi. The nomination committee is chaired by Mr. Xing Jian. The primary function of the nomination committee is to make recommendations to our board to fill vacancies on our Board.

### ***Remuneration Committee***

Our remuneration committee consists of three independent non-executive Directors, Mr. Han Benwen, Mr. Xing Jian and Mr. Dong Xinyi, and an executive Director, Mr. Zhang. The remuneration committee is chaired by Mr. Han Benwen, an independent non-executive Director. The primary duties of the remuneration committee include without limitation: (i) making recommendations to the Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

### **Compensation of the Directors and Management**

Our Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our Company's contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes) which were paid to our Directors for the years ended December 31, 2016 and 2017 was approximately RMB4,671,000 and RMB4,854,000, respectively.

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes) which were paid by our Group to our five highest paid individuals for the years ended December 31, 2016 and 2017 were approximately RMB4,071,000 and RMB6,916,000, respectively.

During the same period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the two years ended December 31, 2017 for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.



## PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our Shares as of the date of this offering circular by (i) our directors and (ii) those persons known by us to beneficially own 5% or more of our outstanding shares.

<u>Name of beneficial shareholder</u>	<u>Capacity/nature of interest</u>	<u>Number of Share</u>	<u>Approximately Percentage of shareholding</u>
Mr. Zhang <sup>(1)</sup> . . . . .	Interest in a controlled corporation	5,968,092,073	67.99%
Ms. Zheng <sup>(2)</sup> . . . . .	Interest of spouse	5,968,092,073	67.99%
Shiping Prosperity Private Trust Company <sup>(3)</sup>	Trustee	5,968,092,073	67.99%
Hongqiao Holdings . . . . .	Beneficial owner	5,968,092,073	67.99%
CITIC Group Corporation <sup>(4)</sup> . . . . .	Interest in a controlled corporation	806,640,670	9.19%
CITIC Limited <sup>(4)</sup> . . . . .	Interest in a controlled corporation	806,640,670	9.19%
CTI Capital Management Limited 中信信惠國際資本有限公司 <sup>(4)</sup> . . . . .	Beneficial owner	806,640,670	9.19%
The Capital Group Companies, Inc. <sup>(5)</sup> . . . . .	Interest in a controlled corporation	546,182,000	6.22%

Notes:

- (1) Mr. Zhang is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the Shares held by Hongqiao Holdings. Mr. Zhang is an executive Director.
- (2) Ms. Zheng, the spouse of Mr. Zhang, is deemed to be interested in all the Shares in which Mr. Zhang is interested. Ms. Zheng is an executive Director.
- (3) Shiping Prosperity Private Trust Company (previously known as Prosperity Eastern Limited) held these Shares as trustee on behalf of Mr. Zhang.
- (4) CTI Capital Management Limited is an indirectly wholly-owned subsidiary of CITIC Limited, which in turn was ultimately controlled by CITIC Group Corporation as to 58.13%.
- (5) Such shares were held by Capital Research and Management Company, a wholly owned subsidiary of The Capital Group Companies, Inc.

## RELATED PARTY TRANSACTIONS

The following discussion describes certain significant related party transactions between our consolidated subsidiaries and our Directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth the name and relationship of our related parties with which we had significant related party transactions during the two years ended December 31, 2016 and 2017.

Name	Relationship
Chuangye Group . . . . .	(1)
Binzhou Weiqiao Technology Industrial Park Co., Ltd. ("Binzhou Industrial Park") . . . . .	Controlled by Chuangye Group
Chongqing Weiqiao Financial Factoring Co., Ltd. ("Chongqing Weiqiao") . . . . .	Controlled by Chuangye Group
Shandong Ming Hong Textile Technology Co., Ltd ("Ming Hong Textile") . . . . .	Controlled by Chuangye Group
Zhanhua Jinsha Water Supply Co., Ltd. ("Jinsha Water Supply") . . . . .	An associate of Chuangye Group
Africa Bauxite Mining Company Ltd. ("ABM") . . . . .	An associate of a wholly-owned subsidiary of the Company
Winning Alliance Ports SA ("WAP"). . . . .	An associate of a wholly-owned subsidiary of the Company

Notes:

- (1) Mr. Zhang, the Director and the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group during the two years ended December 31, 2017. Chuangye Group is principally engaged in the production and sale of textiles. Our Controlling Shareholder, Mr. Zhang, owns approximately 31.59% of equity interest of Chuangye Group.

The table below sets forth our significant related party transactions for the years indicated:

	Year ended December 31,	
	2016	2017
	(RMB in thousands)	
Purchases of water		
– Jinsha Water Supply . . . . .	24,643	29,679
Purchases of bauxite		
– ABM . . . . .	1,014,748	2,796,270
Sales of steam		
– Binzhou Industrial Park . . . . .	26,709	24,310
– Ming Hong Textile . . . . .	–	1,961
Loans to associates		
– WAP . . . . .	227,760	–
– SMB . . . . .	242,794	–
– ABM . . . . .	–	716,394
Factoring of bills receivables		
– Chongqing Weiqiao . . . . .	232,000	1,054,500

The table below sets forth the guarantees and security for the years indicated:

	Year ended December 31,	
	2016	2017
	(RMB in thousands)	
Chuangye Group . . . . .	450,000	499,000

Except as disclosed above and as disclosed elsewhere in our financial statements for 2016 through 2017 (and the notes thereto) included elsewhere (or incorporated by reference) in this offering circular, there was no related party transaction between us, our consolidated subsidiaries and our directors, executive officers and principal shareholders nor, in each case, the companies with whom they are affiliated, for the years indicated above.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2017, our total borrowings amounted to approximately RMB70,550.6 million (US\$10,843.4 million), of which approximately RMB8,916.1 million (US\$1,370.4 million) were secured borrowings. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

### Offshore Financing

#### *The November 2014 Notes*

On November 3, 2014, we issued the November 2014 Notes with the aggregate principal amount of US\$300,000,000, the material terms of which are substantially similar to the terms of the Notes except:

- the November 2014 Notes will mature on May 3, 2018;
- the November 2014 Notes bear interest at a rate of 6.875% per annum;
- the November 2014 Notes are guaranteed by certain of our oversea subsidiaries;
- at any time prior to May 3, 2018, we may at our option redeem the November 2014 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; and
- at any time prior to May 3, 2018, we may redeem up to 35% of November 2014 Notes, at a redemption price of 106.875% 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.

As the date of this offering circular, we had a total of USD300 million principal amount of the November 2014 Notes outstanding.

#### *The November 2017 CB*

On November 28, 2017, we issued US\$320,000,000 aggregate principal amount of 5.0% convertible bonds, convertible into fully-paid ordinary shares with a par value of US\$0.01 each of the Company ("Shares"). The November 2017 CB will mature on November 28, 2022 ("Maturity Date"). The November 2017 CB bear interest from (and including) November 28, 2017 at the rate of 5.0% per annum calculated by reference to the principal amount thereof and payable in US dollars semi-annually in arrears in equal installments in May and November in each year, commencing on May 28, 2018. The November 2017 CB constitute direct, unsubordinated, unconditional and (subject to the terms and conditions of the November 2017 CB) unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the November 2017 CB shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to the terms and conditions of the November 2017 CB, at all times rank at least equally with all of its other present and future senior, unsecured and unsubordinated obligations.

The November 2017 CB may be converted into Shares at any time on or after January 8, 2018 up to the close of business on the tenth day prior to the Maturity Date, or if such November 2017 CB has been called for redemption before the Maturity Date, then up to the close of business on a date no later than ten days prior to the date fixed for redemption, or if notice requiring redemption has been given by the holder of such November 2017 CB, then up to the close of business on the day prior the giving of such notice. Unless previously redeemed, converted, purchased and cancelled, our Company will redeem each November 2017 CB on the Maturity Date at 106% of its principal amount together with accrued and unpaid interest.

The initial conversion price (“Conversion Price”) was HK\$8.16. The Conversion Price will be subject to adjustment for, among other things, consolidation, subdivision or reclassification of Shares, capitalization of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities, other dilutive events and change of control of the Company.

The November 2017 CB also contain customary redemption provisions and events of default.

The November 2017 CB are unsecured as of the date of this offering circular. However, the Convertible Bonds contain a customary negative pledge, pursuant to which holders of the November 2017 CB will be entitled to have the benefit of any collateral that holders of indebtedness similar to the type contemplated to be incurred under the Notes have.

### ***Term Loan Facility Agreements***

#### *The Indonesia Facility*

On December 12, 2016, our Indonesia subsidiary PT. Well Harvest Winning Alumina Refinery (“PT. Well Harvest”) entered into a senior facilities agreement with, among others, PT Bank DBS Indonesia relating to a US\$415 million term loan facility (the “Indonesia Facility”).

The Indonesia Facility was used to finance the construction and operation of the phase I alumina production facilities with an annual capacity of 1 million tons of alumina product in Indonesia and contains certain financial and project covenants such as indebtedness level and capital expenditures and certain events of default, including non-payment and change of control. Our Company also pledged its shares in PT. Well Harvest.

#### *The CBI August 2017 Facility*

On August 30, 2017, we entered into an amended facility agreement with, among others, China CITIC Bank International Limited (“CBI”) as facility agent (the “CBI August 2017 Facility”), pursuant to which CBI agreed to advance to us an additional term loans US\$150.0 million for the purpose to finance any prepayment or repayment of the amounts outstanding under the 2016 Facility. The CBI August 2017 Facility is unsecured and will mature on 36 months after the date of signing date of the CBI August 2017 Facility, with the principal amount payable in installments starting from February 28, 2019. The interest rate for all the term loans is the LIBOR plus 3.45% per annum.

The CBI August 2017 Facility agreement contains certain financial covenants such as minimum consolidated tangible net worth, indebtedness ratios and interest coverage ratios and certain customary events of default, including for non-payment of amounts under the facility, breaches of the terms of the facility agreement, insolvency and non-payment of financial indebtedness of any member of the Group.

The CBI August 2017 Facility agreement contains general undertakings.

#### *The CBI December 2017 Facility*

On December 22, 2017, we entered into a facility agreement with, among others, CBI as facility agent (the “CBI December 2017 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$30.0 million for the purpose to prepay or repay outstanding amounts payable under the 2016 Facility. The CBI December 2017 Facility is guaranteed by our subsidiaries, Zouping County Huisheng New Materials Technology Co., Ltd and Zouping County Huicai New Materials Technology Co., Ltd. The CBI December 2017 Facility will mature on June 22, 2018, with the principal amount payable in one lump sum on June 22, 2018. The interest rate for all the term loans is the LIBOR plus 2.85% per annum.

The CBI December 2017 Facility agreement contains general undertakings and events of default.

### *The CBI 2018 Facility*

On April 9, 2018, we entered into a facility agreement with, among others, CBI as facility agent (the “CBI 2018 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$397.5 million (including a greenshoe option) to finance repayment of part of our existing debts and for general corporate purposes.

The CBI 2018 Facility will mature on April 9, 2021, with the principal amount payable in installments starting the date falls October 9, 2019. The interest rate for all the term loans is the LIBOR plus 3.75% per annum.

The CBI 2018 Facility agreement contains certain financial covenants such as consolidated tangible net worth requirement and certain customary events of default, including for non-payment of amounts under the facility, breaches of the terms of the facility agreement, insolvency and non-payment of financial indebtedness of any member of the Group.

### **Onshore Loans**

#### *Bilateral Loan Arrangements*

Our PRC subsidiaries have entered into bilateral loan agreements with a number of PRC banks, namely Agricultural Bank of China, Bank of China, China Construction Bank, China CITIC Bank, China Everbright Bank, Evergrowing Bank, China Bohai Bank, Shanghai Pudong Development Bank and Industrial and Commercial Bank of China. The maturity of our loans generally ranges from less than one year to three years. Our bilateral loan agreements contain customary covenants and events of default.

We have both fixed rate and floating rate borrowings. Fixed rate borrowings are charged at the prevailing market rates ranging from 3.15% to 6.09% per annum as of December 31, 2017. Interests on our borrowings at floating rates are calculated based on the borrowing rates announced by the People’s Bank of China.

#### *Other Onshore Debt Financing*

Our PRC subsidiaries also raised funds for our business and operation through issuance of corporate bonds and medium-term debentures in the PRC. The maturity of our corporate bonds and medium-term debentures generally ranges from five to seven years. Most of our corporate bonds and medium-term debentures contain redemption rights and interest adjustment mechanism. The effective interests for such bonds and medium-term debentures ranged from 4.16% to 8.91% per annum as at December 31, 2017. In addition, our PRC subsidiaries also issued short-term debentures in the PRC to main flexibility. The term for our short- term debentures is within one year and the effective interests for such short- term debentures ranges from 3.00 % to 4.50% per annum as at December 31, 2017

All of our corporate bonds were listed in the PRC. Transaction documents for our corporate bonds and medium-term debentures contain customary covenants and events of default. Failure to company with these covenants and other applicable rules and laws may constitute an event of default.

## DESCRIPTION OF THE NOTES

For purposes of this “*Description of the Notes*,” the term “**Company**” refers only to China Hongqiao Group Limited, a company incorporated with limited liability under the laws of the Cayman Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “**Subsidiary Guarantor**,” and each such guarantee is referred to as a “**Subsidiary Guarantee**.”

The Notes are to be issued under an indenture (the “**Indenture**”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors and The Bank of New York Mellon, London Branch, as trustee (the “**Trustee**”).

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at One Canada Square, London E14 5AL, United Kingdom.

### Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- *pari passu* in right of payment with the November 2014 Notes, the November 2017 CB and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption “– *The Subsidiary Guarantees*” and in “*Risk Factors – Risks Relating to the Guarantees*”;
- effectively subordinated to the secured obligations of the Company and the Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Notes will mature on April 22, 2019, unless earlier redeemed or repurchased by the Company pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the “**Additional Notes**”), subject to certain limitations described under “– *Further Issues*.” Unless the context requires otherwise, references to the “*Notes*” for all purposes of the Indenture and this “**Description of the Notes**” include any Additional Notes that are actually issued.

The Notes will bear interest at 6.85% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable in arrears on October 24, 2018 and April 22, 2019 (each an “**Interest Payment Date**”).

Interest on Notes held in individual certificated form will be paid to Holders of record at the close of business on October 9, 2018 and April 9, 2019 immediately preceding an Interest Payment Date and interest on Notes held in global form will be paid to Holders of record at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1, (each, a “**Record Date**”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment, then payment of such principal, premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the city of London (which initially will be the specified office of the Paying Agent, currently located at One Canada Square, London E14 5AL, United Kingdom), and the Notes may be presented for registration of transfer or exchange at such office or agency; **provided that**, if the Notes are in definitive form and the Company is acting as its own paying agent, at the option of the Company, payment of interest may be made by check mailed at the Company’s expense to the address of the Holders as such address appears in the Note register maintained by the Registrar or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

### **The Subsidiary Guarantees**

On the Original Issue Date, all of the Company’s Subsidiaries will be Restricted Subsidiaries and the initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than:

- the Restricted Subsidiaries organized under the laws of the PRC (the “**PRC Non-Guarantor Subsidiaries**”, and each a “**PRC Non-Guarantor Subsidiary**”); and
- PT. Well Harvest Winning Alumina Refinery and its Subsidiaries (together, the “**Initial Offshore Non-Guarantor Subsidiaries**”).

The initial Subsidiary Guarantors are holding companies that do not have significant operations or assets.

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. In addition, the Company may elect to have any future Restricted Subsidiary organized outside the PRC (an “**Offshore Subsidiary**”) not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary by designating it as an offshore non-guarantor subsidiary in accordance with the procedures and subject to the limitations set forth below under the heading “– *Offshore Non-Guarantor Subsidiaries*” (each Offshore Subsidiary so designated, a “**New Offshore Non-Guarantor Subsidiary**” and, together with the Initial Offshore Non-Guarantor Subsidiaries, the “**Offshore Non-Guarantor Subsidiaries**”). All of the Restricted Subsidiaries that are

not Subsidiary Guarantors, including the PRC Non-Guarantor Subsidiaries, the Exempted Subsidiaries and the Offshore Non-Guarantor Subsidiaries, are collectively referred to herein as the “**Non-Guarantor Subsidiaries.**”

Although the Indenture contains limitations on the amount of additional Indebtedness that the Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company. See “*Risk Factors – Risks Relating to the Notes – We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.*”

As of December 31, 2017,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total indebtedness of approximately RMB70,550.6 million (US\$10,843.4 million), of which RMB8,916.1 million (US\$1,370.4 million) was secured; and
- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB63,953.6 million (US\$9,829.5 million).

In addition, as of December 31, 2017, the Non-Guarantor Subsidiaries had capital commitments of approximately RMB1,014.2 million (US\$155.9 million) and no contingent liabilities.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- ranks *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor; and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Company will cause (x) each of its future Restricted Subsidiaries (other than Restricted Subsidiaries organized under the laws of the PRC, the Initial Offshore Non-Guarantor Subsidiaries and Exempted Subsidiaries), promptly upon becoming a Restricted Subsidiary, and (y) each of its Exempted Subsidiaries, promptly after it ceases to be an Exempted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Restricted Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a “**Future Subsidiary Guarantor**” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “**Subsidiary Guarantor.**”

#### **Offshore Non-Guarantor Subsidiaries**

Notwithstanding the foregoing sentence, the Company may elect to have an Offshore Subsidiary (other than Hongqiao Investment, Hongqiao Hong Kong and Hongqiao Trading) not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary by the Board of Directors designating it as an Offshore Non-Guarantor Subsidiary. The Board of Directors may designate any Offshore Subsidiary as an Offshore Non-Guarantor Subsidiary if:



- (a) after giving effect to the designation of such Restricted Subsidiary as an Offshore Non-Guarantor Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized under laws outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors do not account for more than 17.5% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries);
- (b) no Default shall have occurred and be continuing, as of the date such designation; and
- (c) the Company could, as of the date of such designation, Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (a) of the covenant described below under the caption “–*Limitation on Indebtedness and Preferred Stock.*”

Any designation of an Offshore Subsidiary as an Offshore Non-Guarantor Subsidiary will be evidenced to the Trustee by delivering to the Trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and an Officers’ Certificate certifying that such designation complied with the preceding conditions.

If, at any time, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors (other than Exempted Subsidiaries) exceed 17.5% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries), the Company must promptly (i) remove the designation of one or more Offshore Non-Guarantor Subsidiaries and cause such Offshore Subsidiaries to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Subsidiaries will Guarantee the payment of the Notes or (ii) designate one or more Offshore Non-Guarantor Subsidiaries as Unrestricted Subsidiaries or (iii) cause one or more Offshore Non-Guarantor Subsidiaries to pay dividends or make distributions on or with respect to their respective Capital Stock *pro rata* to their respective shareholders or on a basis more favorable to the Company, in the case of each of (i), (ii) and (iii) above, in accordance with the terms of the Indenture and such that the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors (other than Exempted Subsidiaries) no longer exceed 17.5% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries). Such removal of designation as an Offshore Non-Guarantor Subsidiary, designation as an Unrestricted Subsidiary or payment of dividends or distributions must be made promptly and in any event no later than 30 days after the date any consolidated financial statements of the Company (which the Company must use its reasonable best efforts to compile on a timely basis) become available (which may be internal consolidated financial statements) which show that the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors (other than Exempted Subsidiaries) exceed 17.5% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries).

The Board of Directors may at anytime remove the designation of any Offshore Non-Guarantor Subsidiary by causing it to execute a supplemental indenture pursuant to which it will Guarantee the Notes under a Subsidiary Guarantee in accordance with the provisions of the Indenture and delivering such supplemental indenture to the Trustee as a result of which it will become a Subsidiary Guarantor.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) irrevocably waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid or

restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "*Risk Factors – Risks Relating to the Guarantees – The guarantees may be challenged under applicable insolvency, fraudulent transfer or similar laws, which could impair the enforceability of the guarantees.*"

#### ***Release of the Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "*– Defeasance – Defeasance and Discharge*";
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the designation by the Company of a Subsidiary Guarantor (other than Hongqiao Investment, Hongqiao Hong Kong and Hongqiao Trading) as an Offshore Non-Guarantor Subsidiary in compliance with the terms of the Indenture; or
- upon the sale, merger or disposition of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants described under the captions "*– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,*" "*– Certain Covenants – Limitation on Asset Sales,*" and "*– Consolidation, Merger and Sale of Assets*") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, merger or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries. However, under the circumstances described below under the caption "*– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries,*" the Company will be permitted to designate certain of its Subsidiaries as Unrestricted Subsidiaries. The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

## Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the date and/or amount of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “**Further Issue**”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; **provided that** the issuance of any such Additional Notes shall then be permitted under the “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” covenant described below and the other provisions of the Indenture.

## Optional Redemption

At any time prior to April 22, 2019, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including), the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time prior to April 22, 2019, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.85% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; **provided that** at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give to the Holders not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- if the Notes are listed on any national securities exchange or are being held through the clearing systems, in compliance with the requirements of the principal national securities exchange on which the Notes are then listed or in compliance with the requirements of the applicable clearing systems; or
- if the Notes are not listed on any national securities exchange, on a *pro rata* basis, by lot or by such method as the Trustee in its sole and absolute discretion deems fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

The Company or any of its Affiliates may from time to time purchase Notes in the open market or by tender or by any other means at any price, so long as such acquisition does not otherwise violate the terms of the Indenture; provided that all Notes redeemed or repurchased by the Company or any of its Affiliates may not be reissued or resold.

### **Repurchase of Notes Upon a Change of Control**

Not later than 30 days following a Change of Control, unless the Company has exercised its right to redeem the Notes in full by delivering a notice of redemption, the Company will make an Offer to Purchase all outstanding Notes (a “**Change of Control Offer**”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the failure by the Company to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes may also constitute an event of default under certain other debt instruments of the Company or its Subsidiaries. Future debt of the Company may also (i) prohibit the Company from purchasing Notes in the event of a Change of Control, (ii) provide that a Change of Control is a default or (iii) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company’s and the Subsidiary Guarantors’ then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “*Risk Factors – Risks Relating to the Notes – We may not be able to repurchase the Notes upon a change of control.*”

The phrase “all or substantially all” as used with respect to the assets of the Company in the definition of “**Change of Control**” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

A Change of Control Offer may be made in advance of a Change of Control and conditioned upon such occurrence of such Change of Control.

Neither the Trustee nor any of the Agents shall be required to take any steps to ascertain whether a Change of Control has occurred and none of them shall be responsible or liable to the Holders for any loss arising from any failure to do so.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

### **No Mandatory Redemption or Sinking Fund**

There will be no mandatory redemption or sinking fund payments for the Notes.

### **Additional Amounts**

All payments of principal of, and premium (if any) and interest on, the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “–*Consolidation, Merger and Sale of Assets*”) or an applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “**Relevant Taxing Jurisdiction**”), or any jurisdiction through which payments are made by or on behalf of the Company or a Subsidiary Guarantor or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the “**Relevant Jurisdictions**”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts (“**Additional Amounts**”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (a) for or on account of:
  - (i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
    - (A) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
    - (B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;
    - (C) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
    - (D) the presentation of such Note (in cases in which presentation is required) for payment in a Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

- (ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
  - (iii) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere; or
  - (iv) any tax, assessment, withholding or deduction required by section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“**FATCA**”), any current or future U.S. Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted or published in any jurisdiction implementing FATCA or an intergovernmental agreement with respect thereto, or any agreement with the U.S. Internal Revenue Service under FATCA; or
  - (v) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii) and (iv); or
- (b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company will (i) make any such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes and will furnish to the Trustee, within 90 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either such certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless the obligation to pay Additional Amounts arises after the 30th day prior to the payment date), if the Company becomes aware that it will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers’ Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

### **Redemption for Tax Reasons**

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company (as defined under the caption “– *Consolidation, Merger and Sale of Assets*”), as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (which

notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “**Tax Redemption Date**”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position, or the stating of an official position, regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of a change in or stating of official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person whose jurisdiction of organization or tax residence is not already a taxing jurisdiction, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes, the Subsidiary Guarantees or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be; **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Company or a Surviving Person may not redeem the Notes if Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Company or a Surviving Person being considered a PRC tax resident under the Enterprise Income Tax Law and payments of dividends from the Company’s or Surviving Person’s PRC subsidiaries to the Company or Surviving Person are then exempt from PRC withholding tax.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Subsidiary Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

- (1) an Officers’ Certificate stating that such change, amendment, or other event referred to above has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Subsidiary Guarantor, or such Surviving Person as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment, or other event referred to above.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed or repurchased by the Company will be cancelled and will not be reissued and any Notes purchased by a Restricted Subsidiary will not be sold or transferred except to the Company.

## Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

### *Limitation on Indebtedness and Preferred Stock*

- (a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness); **provided that** the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness (including Acquired Indebtedness) and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following (“**Permitted Indebtedness**”):
- (i) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;
  - (ii) any *Pari Passu* Subsidiary Guarantees by any Subsidiary Guarantor;
  - (iii) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (b)(iv) of this covenant; **provided that** such Indebtedness of any Restricted Subsidiary shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded from the definition of Permitted Subsidiary Indebtedness by the terms thereof);
  - (iv) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; **provided that** (x) any event which results in any such Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(iv) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness and none of the Company or any Subsidiary Guarantor is an obligee, such Indebtedness must be unsecured and be expressly subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;
  - (v) Indebtedness (“**Permitted Refinancing Indebtedness**”) issued in exchange for, or the net proceeds of which are used to refinance, refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “**refinance**” and “**refinances**” and “**refinanced**” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness repaid substantially concurrently with but in any case before the Incurrence of such Permitted Refinancing Indebtedness) Incurred under clause (a) or clause (b)(i), (b)(ii), (b)(iii), (b)(v) and (b)(vii) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); **provided that** (A) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (b)(v) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is



expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (B) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced and (C) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (b)(v) by means of any Indebtedness of any Non-Guarantor Subsidiary;

- (vi) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (vii) Indebtedness Incurred by the Company or any Restricted Subsidiary (1) representing Capitalized Lease Obligations or (2) for the purpose of financing (A) all or any part of the purchase price of real or personal property (including the lease purchase price of land use rights), assets or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property, assets or equipment which will, upon such acquisition, become a Restricted Subsidiary or (B) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights), assets or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; **provided, however, that** in the case of clauses (A) and (B), (x) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (y) such Indebtedness shall be Incurred no later than 270 days after the acquisition of such property, asset or equipment or completion of such development, construction or improvement, and (z) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted under this clause (b)(vii) (together with, refinancings thereof) does not exceed an amount equal to 10.0% of Total Assets;
- (viii) Indebtedness Incurred by the Company or any Restricted Subsidiary with respect to workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance obligations or similar requirements (in each case other than for an obligation for borrowed money);
- (ix) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 60 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;
- (x) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the

disposition of any business, assets or Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); **provided that** the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received (with amounts escrowed by the purchaser deemed actually received to the extent such amounts are available to satisfy such obligation without restriction other than administrative conditions applicable to the release from escrow) by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

- (xi) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; **provided, however, that** such Indebtedness is extinguished within five Business Days of Incurrence;
  - (xii) (A) guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary; (B) guarantees by the Company and the Subsidiary Guarantors of each other's Indebtedness or (C) guarantees by the Company and the Subsidiary Guarantors of Indebtedness of Non-Guarantor Subsidiaries; provided, however, in the case of each of (A), (B) and (C) that the Indebtedness guaranteed is permitted to be Incurred under the Indenture and subject to the covenant described under the caption "*Limitation on Issuance of Guarantees by Restricted Subsidiaries*";
  - (xiii) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary in order to in effect exchange Renminbi into U.S. dollars or Hong Kong dollars; **provided that** on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(xiii) (together with any refinancings thereof) does not exceed an amount equal to 3.0% of Total Assets;
  - (xiv) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; **provided that** on the date of the Incurrence of any Indebtedness permitted by this clause (b)(xiv) and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(xiv) (together with any refinancings thereof) does not exceed an amount equal to 10.0% of Total Assets;
  - (xv) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof); and
  - (xvi) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of the company (or holding company thereof) referred to under paragraph (15) of the definition of "Permitted Investments," to the extent that (A) such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into the related sale and purchase agreement and (B) the aggregate amount of Indebtedness permitted under this clause (xvi) shall not exceed US\$150.0 million.
- (c) For purposes of determining compliance with this "*Limitation on Indebtedness and Preferred Stock*" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, all or any portion of such item of Indebtedness in one or more types of Indebtedness described above.

- (d) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness under this “*Limitation on Indebtedness and Preferred Stock*” covenant, the Dollar Equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; **provided that** if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded with respect to any outstanding Indebtedness solely as a result of fluctuations in the exchange rate of currencies. Accrual of interest, the accretion of accreted value, the payment of interest in the form of additional Indebtedness with the same terms, payment of dividends or distributions on Disqualified Stock in the form of additional shares of Disqualified Stock of the same class, and the amortization or accretion of original issue discount or liquidation preference shall not be deemed to be the incurrence of Indebtedness or Disqualified Stock for purposes of this covenant.

#### ***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “**Restricted Payments**”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable or paid solely in shares of the Company’s or any Restricted Subsidiary’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any Subsidiary Guarantee (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (A) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (B) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*”; or

- (C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum (without duplication) of:
- (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2014 and ending on the last day of the Company's most recently ended semi-annual period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements) and have been provided to the Trustee at the time of such Restricted Payment; plus
  - (ii) 100% of the aggregate Net Cash Proceeds or Fair Market Value of non-cash proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds or Fair Market Value of non-cash proceeds received upon (x) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
  - (iii) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); plus
  - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (v) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case, to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (w) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Measurement Date of an obligation of another Person (to the extent such guarantee was treated as a Restricted Payment), (x) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (a) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (b) the initial amount of such Investment, (y) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (z) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment") but only to the extent such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (C).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable on a *pro rata* basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) the repurchase, redemption or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any Restricted Subsidiary (or their estate or authorized representatives) upon the death, disability or termination of employment of such employees or directors pursuant to agreements or plans (including employment agreements and share option plans) approved by the board of directors of the Company in an aggregate amount not to exceed US\$1 million (or the Dollar Equivalent thereof) in any fiscal year of the Company;
- (7) repurchases of Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof;
- (8) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for the Capital Stock of the Company; or
- (9) other Restricted Payments in an aggregate amount not to exceed US\$25.0 million (or the Dollar Equivalent thereof) after the Measurement Date;

**provided that**, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph made after the Measurement Date shall be included in calculating whether the conditions of clause (C) of the first paragraph of this “– *Limitation on Restricted Payments*” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of recognized international standing (i) if the determination is made for purposes of subclause (ii) of clause (C) of the first paragraph of this "*– Limitation on Restricted Payments*" covenant and (ii) if the determination is made for any other purposes of this "*– Limitation on Restricted Payments*" covenant and the Fair Market Value exceeds US\$15.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$15.0 million (or the Dollar Equivalent thereof) (other than those under paragraphs (5) through (8) above), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "*– Limitation on Restricted Payments*" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

- (a) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
  - (i) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
  - (ii) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
  - (iii) make loans or advances to the Company or any other Restricted Subsidiary; or
  - (iv) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:
  - (i) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; **provided that** the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect on the ability of such Restricted Subsidiary to take any of the actions described in clauses (i) through (iv) of paragraph (a) above than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (ii) existing under or by reason of applicable law, rule, regulation or order;
  - (iii) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; **provided that** the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect on the

ability of such Person to take any of the actions described in clauses (i) through (iv) of paragraph (a) above than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (iv) that otherwise would be prohibited by the provision described in clause (a)(iv) of this covenant if they arise, or are agreed to in the ordinary course of business, and that (x) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (y) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (z) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (v) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “– *Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*,” “– *Limitation on Indebtedness and Preferred Stock*” and “– *Limitation on Asset Sales*” covenants; or
- (vi) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (a) or clause (b)(v), (vii), (xiii), (xiv) or (xv) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant if such encumbrances or restrictions are (A) customary for such types of agreements and (B) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payments on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; **provided that** the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced, **provided, further, that** the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (A) and (B) are met, which determination will be conclusive if it is made in good faith and evidenced by a Board Resolution; or
- (vii) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (A) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (B) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make the required payments on the Notes, **provided, further, that** the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (A) and (B) are met, which determination will be conclusive if it is made in good faith and evidenced by a Board Resolution; or
- (viii) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Subsidiary or its subsidiaries or the property or assets of such Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; **provided that** the encumbrances and restrictions in any such extension,

refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

#### ***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (a) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, *pro rata* to its shareholders or incorporators or in such proportions as would result in a greater percentage of ownership in such Restricted Subsidiary by the Company;
- (b) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (c) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "*Limitation on Restricted Payments*" covenant if made on the date of such issuance or sale and **provided that** the Company complies with the "*– Limitation on Asset Sales*" covenant to the extent required thereunder; and
- (d) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); **provided that** the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "*– Limitation on Asset Sales*" covenant to the extent required thereunder.

#### ***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Non-Guarantor Subsidiary, directly or indirectly, to guarantee any Indebtedness ("**Guaranteed Indebtedness**") of the Company or any Subsidiary Guarantor, unless (1) (A) such Non-Guarantor Subsidiary, as soon as practicable but in any event within five (5) Business Days thereafter, executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Non-Guarantor Subsidiary, whereupon it shall become a "**Subsidiary Guarantor**" and (B) such Non-Guarantor Subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Non-Guarantor Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee is permitted by clauses (b)(iv) or (b)(xiii) (in the case of clause (b)(xiii), with respect to the Guarantee provided by any PRC Restricted Subsidiary through the pledge of one or more PRC bank accounts or deposits to secure (or the use of any Guarantee or letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness) under the "*Limitation on Indebtedness and Preferred Stock*" covenant.

If the Guaranteed Indebtedness (i) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (ii) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.



### ***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “**Affiliate Transaction**”), unless:

- (i) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable arm’s-length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company; and
- (ii) the Company delivers to the Trustee:
  - (A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(A) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than the terms available to (or from, as applicable) a Person that is not an Affiliate of the Company, in each case issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and expenses to directors who are not employees of the Company or any Restricted Subsidiary for their service as board members of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1), (2) or (3) of the first paragraph of the covenant described under the caption “– *Limitation on Restricted Payments*” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) or (7) of the second paragraph of the covenant described under the caption “*Limitation on Restricted Payments.*”

The requirements of clause (ii) of the first paragraph of this covenant shall not apply to (A) Investments (other than Permitted Investments) not prohibited by the “– *Limitation on Restricted Payments*” covenant, (B) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering circular, or any amendment or modification, renewal or replacement thereof, so long as such amendment, modification, renewal or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (C) any transaction between or among the Company or a Wholly Owned Restricted Subsidiary on the one hand and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary on the other hand or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries; **provided that** in the case of clause (C), (1) such transaction is entered into in the ordinary course of business and (2) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

In addition, the requirements of clause (ii)(B) of the first paragraph of this covenant shall not apply to any transaction between or among the Company and any Restricted Subsidiary on the one hand and an Unrestricted Subsidiary on the other hand **provided that** (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or a Restricted Subsidiary) of such Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Unrestricted Subsidiary or by reason of being a Subsidiary of the Company).

#### ***Limitation on Liens***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

#### ***Limitation on Sale and Leaseback Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; **provided that** the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (a) the Company or any Restricted Subsidiary could have (1) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under clause (a) of the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*” and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption “– *Limitation on Liens*,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (b) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction, **provided however that** such gross cash proceeds may be equal to 70.0% or more of the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction (notwithstanding the covenant described under the caption “– *Limitation on Asset Sales*” and clause (c) below) if (i) the counterparty of the Sales and Leaseback Transaction is a bank or a financial institution or any Person primarily engaged in the business of finance leasing, in each case that is not an Affiliate of the Company, (ii) the leaseback of the relevant property is accounted for using capital lease method or finance lease method under GAAP on the Company’s consolidated financial statements and (iii) the payments to be made by the Company or the relevant Restricted Subsidiary under the leaseback transaction, including lease payments and the price of the purchase option at the end of

the lease term, are fair to the Company or the relevant Restricted Subsidiary (from a market practice standpoint applied to a lessee with similar creditworthiness) as determined by the Company in good faith, after considering the gross cash proceed amount the Company or the relevant Restricted Subsidiary received when the property that is the subject of the Sales and Leaseback Transaction was initially transferred to the lessor; and

- (c) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or any Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described under the caption “– *Limitation on Asset Sales.*”

***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (a) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (b) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (c) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; **provided that** in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:
  - (i) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and
  - (ii) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary, may apply such Net Cash Proceeds to:

- (A) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (B) develop or acquire Replacement Assets.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (A) and (B) in the immediately preceding paragraph will constitute “**Excess Proceeds.**” Excess Proceeds of less than US\$30.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When

accumulated Excess Proceeds equals or exceeds US\$30.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (i) accumulated Excess Proceeds, multiplied by
- (ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other *pari passu* Indebtedness tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other *pari passu* Indebtedness will be purchased on a *pro rata* basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

#### ***Limitation on the Company's Business Activities***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; **provided, however, that** the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption “– *Limitation on Restricted Payments.*”

#### ***Use of Proceeds***

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (a) in the amounts and for the purposes specified under the caption “*Use of Proceeds*” in this offering circular and (b) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

#### **Designation of Restricted and Unrestricted Subsidiaries**

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; **provided that** (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) neither the Company nor any Restricted Subsidiary guarantees or otherwise provides credit support for the Indebtedness of such Restricted Subsidiary; (c) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary; (d) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness, or any Lien on any property, of the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*” or such Lien would violate the covenant described under the caption “– *Limitation on Liens*”; (e) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated as Unrestricted Subsidiaries in accordance with this paragraph; (f) the Investment deemed to have been made thereby in such newly designated Unrestricted

Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption “*Limitation on Restricted Payments*”; and (g) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of the Company’s or its Restricted Subsidiaries’ business, taken as a whole.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; **provided that** (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*”; (c) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “– *Limitation on Liens*”; (d) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (e) if such Restricted Subsidiary is not a Non-Guarantor Subsidiary, such Restricted Subsidiary shall upon such designation as a Restricted Subsidiary execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor.

#### ***Government Approvals and Licenses; Compliance with Law***

The Company will, and will cause each Restricted Subsidiary to, (a) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Business, (b) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens and (c) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (1) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (2) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

#### ***Anti-Layering***

The Company will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

### ***Provision of Financial Statements and Reports***

- (a) So long as any of the Notes remain outstanding, the Company will furnish to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized stock exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; **provided that**, if at any time the common shares of the Company cease to be listed for trading on a recognized stock exchange, the Company will furnish to the Trustee and the Holders:
- (i) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis and in the English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;
  - (ii) as soon as they are available, but in any event within 60 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its financial statements (on a consolidated basis and in the English language) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and
  - (iii) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis and in the English language), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; **provided that** the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (2) as soon as possible and in any event within 10 days after the Company becomes aware of the occurrence of a Default, and within 14 days of any request by the Trustee, an Officers' Certificate setting forth the details of such Default or default, and the action which the Company proposes to take with respect thereto. The Trustee shall not be responsible for the determination of the Fixed Charge Coverage Ratio or the verification thereof in the Officers' Certificate.

### **Events of Default**

The following events will be defined as "**Events of Default**" in the Indenture:

- (a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

- (b) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (c) default in the performance or breach of the provisions of the covenants described under the captions “– Consolidation, Merger and Sale of Assets,” the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions “– Repurchase of Notes Upon a Change of Control,” or “– Certain Covenants – Limitation on Asset Sales”;
- (d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$30.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused any holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) the failure to make a principal payment when due;
- (f) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$30.0 million (or the Dollar Equivalent thereof) (in excess of amounts that the Company’s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (g) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (h) the Company or any Restricted Subsidiary (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary, or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary, or (3) effects any general assignment for the benefit of creditors; or
- (i) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default with respect to the Company specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such

Holders shall (subject to being indemnified and/or secured to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default with respect to the Company specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (subject to being indemnified and/or secured to its satisfaction), pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture that may involve the Trustee in personal liability, or that the Trustee determines may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder of Notes may not institute any proceedings, judicial or otherwise against the Company, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be properly incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.



However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year and after request from the Trustee, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See “– *Provision of Financial Statements and Reports.*”

### **Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (a) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the “**Surviving Person**”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, or from or through which it makes payments, and the Indenture and the Notes, shall remain in full force and effect;
- (b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (c) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (d) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;
- (e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (f) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this covenant, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

- (a) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;
- (b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (c) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (d) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”; and
- (e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with.

**provided that** this paragraph shall not apply to any sale or other disposition that complies with the “Limitation on Asset Sales” covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under “*The Subsidiary Guarantees – Release of the Subsidiary Guarantees.*” The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger.

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

#### **No Payments for Consents**

The Company will not and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

## **Defeasance**

### ***Defeasance and Discharge***

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (a) the Company has (1) deposited with the Trustee (or its agent), in trust, cash in U.S. dollars and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;
- (b) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;
- (c) the Company shall have delivered to the Trustee an Officers Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and
- (d) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In the case of either discharge or defeasance, each of the Subsidiary Guarantees will terminate.

### ***Defeasance of Certain Covenants***

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (c), (d) and (e)(1) under the first paragraph and clauses (c), (d) and (e)(1) under the second paragraph under “*Consolidation, Merger and Sale of Assets*” and all the covenants described herein under “*Certain Covenants*,” other than as described under “– *Certain Covenants-Government Approvals and Licenses; Compliance with Law*” and “– *Certain Covenants – Anti-Layering*,” clause (c) under “*Events of Default*” with respect to such clauses (c), (d) and (e)(1) under the first paragraph and clauses (c), (d) and (e)(1) under the second paragraph under “*Consolidation, Merger and Sale of Assets*” and with respect to the other events set forth in such clause, clause (d) under “*Events of Default*” with respect to such other covenants and clauses (e) and (f) under “*Events of Default*” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of cash in U.S. dollars, U.S. Government Obligations or

a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (b) of the preceding paragraph.

#### ***Defeasance and Certain Other Events of Default***

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

#### **Amendments and Waivers**

##### ***Amendments Without Consent of Holders***

The Indenture may be amended by the Company, the Subsidiary Guarantors and the Trustee, without the consent of any Holder, to:

- (a) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (b) comply with the provisions described under “*Consolidation, Merger and Sale of Assets*”;
- (c) evidence and provide for the acceptance of appointment by a successor Trustee;
- (d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (f) add collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional collateral or to enter into any intercreditor agreement relating thereto;
- (g) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (h) effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;
- (i) make any other change that does not adversely affect the rights of any Holder; or
- (j) conform the text of the Indenture, the Notes or the Subsidiary Guarantees, to any provision of this “*Description of the Notes*” to the extent that such provision in this “*Description of the Notes*” was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Subsidiary Guarantees.

##### ***Amendments With Consent of Holders***

Amendments of the Indenture may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may

waive future compliance by the Company with any provision of the Indenture or the Notes; **provided, however, that** no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (b) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (c) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or any Subsidiary Guarantee;
- (e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;
- (h) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (i) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders, except as permitted by the Indenture;
- (j) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;
- (k) change the redemption date or the redemption price of the Notes from that stated under the caption “– *Optional Redemption*” or “– *Redemption for Tax Reasons*”;
- (l) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (m) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

#### **Unclaimed Money**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

#### **No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any

of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under U.S. federal securities law or other applicable laws.

### **Concerning the Trustee and the Agents**

The Bank of New York Mellon, London Branch has been appointed as Trustee under the Indenture and as paying agent and The Bank of New York Mellon SA/NV, Luxembourg Branch has been appointed as registrar (in such capacity, the “**Registrar**” and the “**Transfer Agent**”; collectively with the Paying Agent, the “**Agents**”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Trustee and the Agents are permitted to engage in other transactions with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; **provided, however, that** if the Trustee or any Agent acquires any conflicting interest, it must eliminate such conflict or resign.

Each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

### **Book-Entry; Delivery and Form**

The Notes will be represented by a global note in registered form without interest coupons attached (the “**Global Note**”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

### **Global Note**

Ownership of beneficial interests in the Global Note (the “**book-entry interests**”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– *Individual Definitive Notes*,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “**Holders**” of the Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “–*Additional Amounts.*”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

### **Redemption of Global Note**

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the U.S. dollar amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the U.S. dollar amount received by the common depositary, Euroclear or Clearstream, as applicable in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; **provided, however, that** no book-entry interests of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

### **Action by Owners of Book-Entry Interests**

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

## **Transfers**

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "*Transfer Restrictions.*"

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

## **Global Clearance and Settlement Under the Book-Entry System**

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

## **Information Concerning Euroclear and Clearstream**

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures relating to book-entry interests.

## **Individual Definitive Notes**

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact



do so, or (3) any of the Notes has become immediately due and payable in accordance with “– *Events of Default*” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by or on behalf of the Registrar for delivery to the Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

### **Notices**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor) addressed to the Company at Huxian One Road, Zouping Economic Development District, Zouping County, Shandong Province, the People’s Republic of China, Fax: +86 543 416 6000, Attention: Mrs. Zhang Ruilian or (if intended for the Trustee) addressed to Trustee at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures). The Company may change its address for notice set forth above by providing notice of such change to the Trustee in accordance herewith.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

### **Consent to Jurisdiction; Service of Process**

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services Inc. at 801 2nd Avenue, Suite 403, New York, NY 10017, the United States of America, United States of America, for receipt of service of process in any such suit, action or proceeding.

### **Governing Law**

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

### **Definitions**

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “*Description of the Notes*” for which no definition is provided.

**“Acquired Indebtedness”** means Indebtedness of a Person existing at the time such Person is merged with or into or becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary, whether or not such Indebtedness is Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

**“Adjusted Treasury Rate”** means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after April 22, 2019, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

**“Affiliate”** means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

**“Applicable Premium”** means, with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the principal amount of such Note on April 22, 2019, plus all required remaining scheduled interest payments due on such Note through April 22, 2019 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

**“Asset Acquisition”** means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

**“Asset Disposition”** means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

“**Asset Sale**” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; **provided that** “Asset Sale” shall not include:

- (a) sales or other dispositions of inventory, receivables and other current assets in the ordinary course of business;
- (b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the covenant described under the caption “– *Limitation on Restricted Payments*”;
- (c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$2.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (d) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (e) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (f) a transaction covered by the covenant under the caption “– *Consolidation, Merger and Sale of Assets*”;
- (g) sales or other dispositions of cash or Temporary Cash Investments; and
- (h) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“**Attributable Indebtedness**” means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction.

“**Average Life**” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and the amount of such principal payment by (2) the sum of all such principal payments.

“**Bank Deposit Secured Indebtedness**” means Indebtedness of the Company or any Restricted Subsidiary that is (1) secured by a pledge of one or more bank accounts or deposits of a PRC Restricted Subsidiary or (ii) Guaranteed by a Guarantee or a letter of credit (or similar instruments) from or arranged by a PRC Restricted Subsidiary, and is used by the Company and its Restricted Subsidiaries to in effect exchange Renminbi into U.S. dollars or Hong Kong dollars; **provided, however, that** the total deposits in such pledged bank accounts or the value of collaterals provided for the letter of credit or similar instruments shall not at any time exceed an amount equal to 110% of the aggregate outstanding principal amount of such Indebtedness (or the Dollar Equivalent thereof).

“**Board of Directors**” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

**“Board Resolution”** means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

**“Business Day”** means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong are authorized by law or governmental regulation to close.

**“Capital Stock”** means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

**“Capitalized Lease”** means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

**“Capitalized Lease Obligations”** means the discounted present value of the rental obligations under a Capitalized Lease.

**“Change of Control”** means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (3) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 50.1% of the total voting power of the Voting Stock of the Company;
- (4) individuals who on the Original Issue Date constituted the Board of Directors (together with any new directors whose election or nomination was approved by a vote of at least two-thirds of the members of the Board of Directors then in office who were members of the Board of Directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

**“Clearstream”** means Clearstream Banking S.A.

**“Commodity Hedging Agreement”** means any spot forward or option, commodity price protection agreement or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“**Common Stock**” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

“**Comparable Treasury Issue**” means the U.S. Treasury security having a maturity comparable to April 22, 2019 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to April 22, 2019.

“**Comparable Treasury Price**” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company, Reference Treasury Dealer Quotations for such redemption date.

“**Consolidated Assets**” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); **provided, that**, only with respect to the measurement of the percentage of Total Assets represented by the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries, Consolidated Assets shall be calculated after giving pro forma effect to any dividends or distributions paid by such Restricted Subsidiary to its shareholders subsequent to the last day of such semi-annual period.

“**Consolidated EBITDA**” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (a) Consolidated Interest Expense;
- (b) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and
- (c) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; **provided that** (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary and (ii) in the case of any PRC CJV consolidated in accordance with GAAP, Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“**Consolidated Fixed Charges**” means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or dividends paid to the Company or to a Wholly Owned Restricted Subsidiary.

“**Consolidated Interest Expense**” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is guaranteed by or secured by a Lien on assets of the Company or any Restricted Subsidiary and (vii) any capitalized interest; **provided that** interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“**Consolidated Net Income**” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; **provided that** the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (a) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting, except that:
  - (i) subject to the exclusion contained in clause (e) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (c) below); and
  - (ii) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (b) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;
- (c) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (d) the cumulative effect of a change in accounting principles;
- (e) any net after-tax gains realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or any Restricted Subsidiary);
- (f) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and

(g) any net after-tax extraordinary or non-recurring gains.

“**Consolidated Net Worth**” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in accordance with GAAP.

“**Currency Agreement**” means any foreign exchange forward contract, currency swap agreement, currency hedge agreement, currency option agreement, accumulator or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“**Default**” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“**Disqualified Stock**” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; **provided that** any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in “– *Certain Covenants – Limitation on Asset Sales*” and “*Repurchase of Notes Upon a Change of Control*” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “– *Certain Covenants – Limitation on Asset Sales*” and “*Repurchase of Notes Upon a Change of Control*” covenants.

“**Dollar Equivalent**” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“**Entrusted Loans**” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, **provided that**, such borrowings are not reflected on the consolidated balance sheet of the Company.

“**Equity Offering**” means (i) any bona fide primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any bona fide secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date the net proceeds of which are contributed to the common equity capital of the Company; **provided that** the aggregate gross cash proceeds received by the Company from such transaction are no less than US\$20.0 million (or the Dollar Equivalent thereof).

“**Euroclear**” means Euroclear Bank SA/NV, as operator of the Euroclear System.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

**“Exempted Subsidiary”** means a Restricted Subsidiary organized in any jurisdiction other than the PRC that (x) is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or (y) to the extent that such approval or registration is available under any applicable law or regulation, failed to obtain any required governmental or regulatory approval or registration with respect to providing a Subsidiary Guarantee after the Company and such Restricted Subsidiary used their best efforts; **provided that** such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon the conditions set forth in (x) and (y) above cease to be in force or apply to such Restricted Subsidiary.

**“Fair Market Value”** means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

**“Fixed Charge Coverage Ratio”** means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the **“Two Semi-annual Fiscal Periods”**) to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Fiscal Periods. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the **“Reference Period”**) commencing on and including the first day of the Two Semi-annual Fiscal Periods and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Fiscal Periods), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; **provided that** in the event of any such repayment or redemption, Consolidated EBITDA for such Two Semi-annual Fiscal Periods shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi-annual Fiscal Periods in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset



Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

**provided that** to the extent that clause (d) or (e) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“**GAAP**” means International Financial Reporting Standards issued by the International Accounting Standards Board as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP.

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); **provided that** the term “**guarantee**” shall not include endorsements for collection or deposit in the ordinary course of business. The term “**guarantee**” used as a verb has a corresponding meaning.

“**Hedging Obligation**” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“**Holder**” means the Person in whose name a Note is registered in the Note register.

“**Hongqiao Hong Kong**” means Hongqiao Investment (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability.

“**Hongqiao Investment**” means China Hongqiao Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

“**Hongqiao Trading**” means Hongqiao International Trading Limited, a company incorporated in Hong Kong with limited liability.

“**Incur**” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; **provided that** (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “**Incurrence**,” “**Incurred**” and “**Incurrence**” have meanings correlative with the foregoing.

“**Indebtedness**” means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (c) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (e) all Capitalized Lease Obligations and Attributable Indebtedness;
- (f) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; **provided that** the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;
- (g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;
- (h) to the extent not otherwise included in this definition, Hedging Obligations;
- (i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and
- (j) any Preferred Stock issued by (i) such Person, if such Person is a Restricted Subsidiary or (ii) any Restricted Subsidiary of such Person, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, "Indebtedness" shall not include any Entrusted Loans, any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or any contingent obligations to refund payments (including deposits) to customers (or any guarantee thereof) in connection with mandatory obligations under or pending completion of a customer contract, in each case, entered into in the ordinary course of business and in accordance with customary market practice; **provided that**, in each case, such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided:

- (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "**Indebtedness**" so long as such money is held to secure the payment of such interest; and
- (C) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (b)(vi) of the covenant described under the caption "*– Limitation on Indebtedness and Preferred Stock*"; and (ii) equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person if not Incurred pursuant to such clause.

"**Indonesia**" means the Republic of Indonesia.

**“Interest Rate Agreement”** means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

**“Investment”** means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person,
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),
- (3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or
- (4) any guarantee of any obligation of another Person to the extent such obligation is outstanding.

For the purposes of the provisions of the “– *Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries*”, “– *Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*” and “– *Certain Covenants – Limitation on Restricted Payments*” covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation (ii) if the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of and (iii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

**“Lien”** means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

**“Measurement Date”** means June 26, 2014.

**“Net Cash Proceeds”** means:

- (a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of
  - (1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
  - (2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

- (3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and
  - (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“**November 2014 Notes**” means the 6.875% senior notes due 2018 issued by the Company in the aggregate principal amount of US\$300,000,000 on November 3, 2014.

“**November 2017 CB**” means the 5.0% convertible bonds due 2022 issued by the Company in the aggregate principal amount of US\$320,000,000 on November 28, 2017.

“**Offer to Purchase**” means an offer to purchase the Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “**Offer to Purchase Payment Date**”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “*Option of the Holder to Elect Purchase*” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“**Officer**” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

“**Officers' Certificate**” means a certificate signed by two Officers; **provided that**, with respect to any Subsidiary Guarantor having only one Officer, an “**Officers' Certificate**” means a certificate signed by such Officer.

“**Opinion of Counsel**” means a written opinion from legal counsel selected by the Company; **provided that** such counsel shall be in form and substance acceptable to the Trustee.

“**Original Issue Date**” means the date on which the Notes are originally issued under the Indenture.

**“Pari Passu Subsidiary Guarantee”** means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or a Subsidiary Guarantor; **provided that** (i) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness under the covenant described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” and (ii) such guarantee ranks *pari passu* with the Subsidiary Guarantee of such Subsidiary Guarantor.

**“Permitted Business”** means any business which is the same as, related, ancillary or complementary to any of the business of the Company and its Restricted Subsidiaries on the Original Issue Date as described in this offering circular as well as businesses that constitute an upstream or downstream business of the current business of the Company.

**“Permitted Holders”** means any or all of the following:

- (1) Mr. Zhang Shiping;
- (2) the estate or the immediate family members of the Person specified in clause (1) and any trust established by Mr. Zhang Shiping for such immediate family members or himself;
- (3) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of “**Affiliate**”) of the Person specified in clause (1) or (2) of this definition; and
- (4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1), (2) and (3) of this definition.

**“Permitted Investment”** means:

- (1) any Investment in the Company or a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;
- (7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

- (8) Investments consisting of consideration received by the Company or any Restricted Subsidiary in connection with an Asset Sale made in compliance with the covenant under the caption “– *Certain Covenants – Limitation on Asset Sales*”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under the caption “– *Certain Covenants – Limitation on Liens*”;
- (10) Investments in securities or other obligations of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (11) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of a Permitted Business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet and dischargeable in accordance with customary terms;
- (12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (13) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business;
- (14) an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists solely of Common Stock of the Company; and
- (15) Investments made in a company organized under the laws of Bermuda or a holding company holding such company, which is, through its subsidiary, primarily engaged in bauxite mining business in the Republic of Guinea, in accordance with the memorandum of understanding described in the Company’s announcement with The Stock Exchange of Hong Kong Limited dated June 3, 2014; **provided that** (i) the amount of any Investment made by the Company or any Restricted Subsidiary under this clause (15) shall be based on the Fair Market Value on the date of the Investment; (ii) the aggregate amount of the Investments (valued at the time such Investments were made) made pursuant to this clause (15) shall not exceed US\$150.0 million; (iii) no Default shall have occurred and be continuing, as of the date of any Investment made under this clause (15), or would occur as a result of such Investment; and (iv) the Company could, as of the date of such Investments, Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (a) of the covenant described below under the caption “– *Limitation on Indebtedness and Preferred Stock.*”

“**Permitted Liens**” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; **provided further that** such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens incurred in the ordinary course of business securing reimbursement obligations with respect to letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments that encumber documents and other property relating to such letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (b)(vi) of the covenant under the caption "*– Limitation on Indebtedness and Preferred Stock*";
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(v) of the covenant described under the caption "*– Limitation on Indebtedness and Preferred Stock*"; **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (15) Liens (including extensions and renewals thereof) upon real or personal property, assets or equipment acquired after the Original Issue Date by the Company or any Restricted Subsidiary; **provided that** (a) such Lien is created solely for the purpose of securing Indebtedness of the type permitted to be Incurred under clause (b)(vii)(2) of the covenant described under the caption "*– Limitation on Indebtedness and Preferred Stock*," (b) such Lien is created prior to, at the time of or within 270 days after the later of the acquisition or the completion of development, construction



or improvement of such property, (c) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (d) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item;

- (16) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;
- (17) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; **provided**, however, that the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens incurred on one or more PRC bank accounts to secure Bank Deposit Secured Indebtedness of the type described under clause (b)(xiii) of the covenant described under "*– Limitation on Indebtedness and Preferred Stock*";
- (21) Liens on deposits or funds held in escrow arrangements securing Indebtedness permitted under clause (b)(x) of the covenant described under the caption "*– Certain Covenants – Limitation on Indebtedness and Preferred Stock*";
- (22) Bankers' Liens in the nature of setoff arising in the ordinary course of business and consistent with industry practice;
- (23) Liens in favor of customs and revenue authorities arising by operation of law to secure payment of customs duties in connection with importation or exportation of goods in the ordinary course of business;
- (24) Retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller, in each case in the ordinary course of business;
- (25) Liens on real or personal property or assets of any PRC Non-Guarantor Subsidiary securing any Indebtedness of a PRC Non-Guarantor Subsidiary; **provided that** the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (25) does not exceed 130% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;
- (26) Liens on real or personal property or assets of any Offshore Non-Guarantor Subsidiary securing any Indebtedness of such Offshore Non-Guarantor Subsidiary; **provided that** the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (26) does not exceed 150% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;

- (27) Liens Incurred on deposits made to secure Entrusted Loans;
- (28) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (xiv) of paragraph (b) of the covenant described under the caption entitled “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”; and
- (29) Liens securing Indebtedness which is permitted to be Incurred under clause (xv) of paragraph (b) of the covenant described under the caption entitled “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”.

“**Permitted Subsidiary Indebtedness**” means any Indebtedness of the Non-Guarantor Subsidiaries, taken as a whole; **provided that**, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses (b)(i), (b)(ii), (b)(iv), (b)(vi), (b)(viii), (b)(ix), (b)(x), (b)(xi) and (b)(xii) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”) does not exceed an amount equal to 30% of Total Assets.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“**PRC**” means the People’s Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“**PRC CJV**” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on 13 April 1988 (as most recently amended on 13 October 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on 4 September 1995, as such laws may be amended.

“**PRC CJV Partner**” means with respect to a PRC CJV, the other party or parties to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“**PRC Restricted Subsidiary**” means a Restricted Subsidiary organized under the laws of the PRC.

“**Preferred Stock**” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

“**Reference Treasury Dealer**” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in the City of New York, selected by the Company in good faith.

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) requested by the Company and quoted in writing by such Reference Treasury Dealer at 5:00 p.m., New York city time, on the third Business Day preceding such redemption date.

“**Replacement Assets**” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

“**Renminbi**” or “**RMB**” means the lawful currency of the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of the Indenture.

“**Restricted Subsidiary**” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“**S&P**” means Standard & Poor’s Ratings Services and its affiliates and successors.

“**Sale and Leaseback Transaction**” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“**Senior Indebtedness**” of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; **provided that** Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

“**Stated Maturity**” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“**Subordinated Indebtedness**” means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“**Subsidiary**” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

“**Subsidiary Guarantee**” means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“**Subsidiary Guarantor**” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; **provided that** Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

**“Temporary Cash Investment”** means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by (i) a bank or trust company which is organized under the laws of the United States of America or any state thereof, any state of the European Economic Area, Singapore or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) (ii) a bank or trust company that is an Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of Affiliate) of a bank or trust company described in clause (i) above, or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, Industrial and Commercial Bank of China, China Construction Bank, China Development Bank and China Merchants Bank; (ii) a bank or trust company that is an Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of Affiliate) of a bank or trust company described in clause (i) above; (iii) China CITIC Bank, China Everbright Bank, China Minsheng Banking Corp., Ltd., Hana Bank (China) Company Limited, Huaxia Bank, First Gulf Bank PJSC, Cathay United Bank Company, Limited, Wing Lung Bank Limited, China Development Industrial Bank, KDB Asia Limited, Korea Development Bank and United Overseas Bank Limited, Evergrowing Bank, Shandong Rural Commercial Bank, Rural Credit Cooperative of Binzhou City Bincheng District, Qishang Bank, China Bohai Bank, Bank of Beijing, Baoshang Bank, China Guangfa Bank Co., Ltd, Crédit Agricole Corporate and Investment Bank, Société Générale, ING Bank N.V., Standard Chartered Bank, Barclays Bank PLC, BNP Paribas, The Hongkong and Shanghai Banking Corporation, Deutsche Bank (China) Co., Ltd., Industrial Bank Co., Ltd, JPMorgan Chase Bank (China) Company Limited, Luso International Banking Ltd, Nanyang Commercial Bank (China) Limited, Ping An Bank, Shanghai Pudong Development Bank, The Bank of East Asia, Limited, The Royal Bank of Scotland (China) Co., Ltd, Westpac Banking Corporation, Xiamen International

Bank; (iv) Bank Pan Indonesia Tbk, PT Bank Permata Tbk, PT Bank Negara Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, PT ANZ Panin Bank, PT Bank CIMB Niaga Tbk, PT Bank Panin Tbk, PT Bank Central Asia, PT Bank Sentral Republik Indonesia, PT Bank DBS Indonesia, Ecobank Guinea Conakry and International Commercial Bank Guinea; or (v) with any bank or financial institution organized under the laws of a country or jurisdiction in which the Company or any Restricted Subsidiary transacts business from time to time in the ordinary course of business, **provided that** in the case of this clause (v), on any date the aggregate amount of such deposits do not exceed (A) in any single bank, the higher of (x) US\$30.0 million (or the Dollar Equivalent thereof) or (y) the Amount Borrowed from such bank and (B) 1.0% of Total Assets, in the aggregate in all such banks. The “**Amount Borrowed**” with respect to each such bank means the Dollar Equivalent of the amount that the Restricted Subsidiary has borrowed from such bank within the immediately preceding sixty (60) days and any interest payable thereon.

“**Total Assets**” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); **provided that** (i) only with respect to clause (b)(vii) or (xiii) of the covenant described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” and the definition of “**Permitted Subsidiary Indebtedness**,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property, asset or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness, and (ii) only with respect to the measurement of the percentage of Total Assets represented by the Consolidated Assets of all Restricted Subsidiaries organized under laws outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors, Total Assets shall be calculated after giving pro forma effect to (x) any dividends or distributions made by the Company and its Restricted Subsidiaries since the last day of such semi-annual period and (y) the consolidated assets of the Person becoming a New Offshore Non-Guarantor Subsidiary (including giving pro forma effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a New Offshore Non-Guarantor Subsidiary).

“**Trade Payables**” means, with respect to any Person, (i) any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services or (iii) any deferred and unpaid purchase price of any item that is classified as “property, plant and equipment” under GAAP and that is used in a Permitted Business, **provided that** such purchase price is fully payable within 12 months.

“**Transaction Date**” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“**Unrestricted Subsidiary**” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

“**U.S. Government Obligations**” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer

thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; **provided that** (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“**Voting Stock**” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“**Wholly Owned**” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; **provided that** Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

## TAXATION

*The following summary of certain Cayman Islands, British Virgin Islands Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.*

### **Cayman Islands Taxation**

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the Notes provided that they are issued, executed and remain outside the Cayman Islands.

We have been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with our Company that (i) no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and (ii) no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of our Company, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision). These concessions shall be for a period of 20 years from June 8, 2010.

### **British Virgin Islands Taxation**

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

### **Hong Kong Taxation**

#### ***Withholding Tax***

No withholding tax is payable in Hong Kong on payments of principal (including any premium payable on redemption of the Notes) or of interest in respect of the Notes.

### ***Profits Tax***

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong and such revenue profits has Hong Kong source.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong, as is expected to be the case).

### **PRC Taxation**

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

### ***Taxation on Interest and Capital Gains***

The EIT Law deems an enterprise established offshore but with “de facto management bodies” in the PRC to be a “resident enterprise” which is subject to the PRC EIT at a rate of 25% on its global taxable income, excluding dividends received from its PRC subsidiaries. There can be no assurance that we will not be treated as a PRC tax resident enterprise and interest in respect of the Notes and gain from the disposition of Notes may be subject to PRC tax. In 2009, the State Administration of Taxation issued guidance regarding the determination of the location of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises. However, it is unclear whether this guidance also reflects the State Administration of Taxation’s criteria for determining the location of the “de facto management bodies” for foreign enterprises that are not controlled by PRC enterprises (such as our Company). If we are treated as a PRC “resident enterprise,” we may be required to withhold PRC tax at a rate of 10% (or a lower treaty rate, if any) from interest payments to investors that are “non-PRC resident enterprises” and that do not have an establishment or place of business in the PRC, or that have



such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, if such interest is derived from sources within the PRC. In addition, any gain realized on the transfer of the Notes by such investors would be subject to PRC income tax at the rate of 10% (or a lower treaty rate, if any) if such gain is regarded as income derived from sources within the PRC. Interest or gains earned by non-resident individuals may be subject to such PRC tax at a rate of 20%. We currently take the position that we are not a PRC resident enterprise for tax purposes. However, we cannot assure you that the tax authorities will agree with our position. We have been advised by our PRC legal advisors, AllBright Law Office (Beijing), that there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and be subject to PRC tax as described above, which may materially and adversely affect the value of investment in the Notes. See “Risk Factors – Risks Relating to Doing Business in the PRC.

### *Stamp Duty*

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside the PRC as is expected to be the case).

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering circular, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser's name.

<b>Initial Purchaser</b>	<b>Principal Amount Of Notes</b>
China CITIC Bank International Limited. . . . .	US\$270,000,000
Standard Chartered Bank . . . . .	US\$102,500,000
Crédit Agricole Corporate and Investment Bank. . . . .	US\$17,500,000
ING Bank N.V., Singapore Branch . . . . .	US\$17,500,000
Société Générale . . . . .	US\$17,500,000
Barclays Bank PLC . . . . .	US\$12,500,000
CMB International Capital Limited . . . . .	US\$12,500,000
Total . . . . .	US\$450,000,000

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is several and not joint and is subject to the approval of certain legal matters by their counsel and certain other conditions.

In addition, we have agreed with the Initial Purchasers that we will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering circular only outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

We have agreed that, for a period until 90 days after the date of the Purchase Agreement, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company or any of the Subsidiary Guarantors and having a tenor of more than one year. The Initial Purchasers in their sole discretion may consent to the offering and sale of such securities by the Company or any of the Subsidiary Guarantors at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval in principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

The Initial Purchasers (or their affiliates or any other person acting for them) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering

transaction to cover short positions. The Initial Purchasers do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, the Initial Purchasers do not make any representation that any of them (or any other person acting for them) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering circular, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days. Purchasers who wish to trade Notes on the date of pricing or the next two succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

The Initial Purchasers and their affiliates have in the past engaged in transactions with and performed services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received customary fees and expenses and they may engage in similar transactions or perform similar services for us in the future. Certain of the Initial Purchasers or their affiliates are lenders to us. See “– Description of Other Material Indebtedness.” They may provide additional loans to us in the future. Furthermore, we may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchasers or certain of their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction.

## **Selling Restrictions**

### ***General***

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering circular or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering circular nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### ***United States***

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons only outside the United States in offshore transactions in reliance on Regulation S and in accordance with applicable laws.

Until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

### ***PRIIPs/Prohibition of Sales to EEA Retail Investors***

The Notes have not been and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”).

For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA. Consequently no key information document as would be required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### ***United Kingdom***

Each of the Initial Purchasers (a) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to it; and (b) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***Hong Kong***

The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”) and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes has been or will be issued or may be in the possession of any person for the purpose of being issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

### ***Singapore***

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (“MAS”) under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, the Notes may not be offered or sold, or be made the subject of an invitation for subscription or purchase, nor may this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1). to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2). where no consideration is or will be given for the transfer;
- (3). where the transfer is by operation of law;
- (4). as specified in Section 276(7) of the SFA; or
- (5). as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### ***PRC***

This offering circular does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. The Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to legal and regulatory requirements of the PRC, the Notes may, subject to the laws and regulations of the regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

### ***British Virgin Islands***

This offering circular does not constitute and shall not be construed as an offer or solicitation to the public in the BVI to subscribe for Notes. No invitation will be made directly or indirectly to any person resident or domiciled in the BVI to subscribe for any of the Notes and the Notes may not be offered or sold, directly or indirectly, in the BVI but the Notes may be acquired by BVI persons who receive the offer outside the BVI and in a manner which does not contravene the laws of the jurisdictions in which such offer is received.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.*

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees, if any (collectively, the “Securities”), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
  - the Securities have not been registered under the Securities Act or any other applicable securities laws;
  - the Securities are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
  - the Securities are being offered and sold only outside of the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
  - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering circular. You represent that you are relying only on this offering circular in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the Securities Act.
5. You acknowledge that each Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE RE-OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers, the Trustee, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.



## **LEGAL MATTERS**

Certain legal matters with respect to the Notes will be passed upon for us by Luk & Partners In Association with Morgan, Lewis & Bockius as to matters of United States federal and New York law, English law and Hong Kong law, AllBright Law Offices (Beijing) as to matters of PRC law, Conyers Dill & Pearman (Cayman) Limited as to matters of Cayman Islands law and Conyers Dill & Pearman as to matters of British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Allen & Overy as to matters of United States federal and New York law and Jingtian & Gongcheng as to matters of PRC law.

## **INDEPENDENT ACCOUNTANTS**

Our consolidated financial statements as of and for the years ended December 31, 2016 and 2017 included in this offering circular have been audited by SHINEWING (HK) CPA Limited certified public accountants as stated in their reports included herein.

## GENERAL INFORMATION

### Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of Directors dated April 17, 2018.

### Litigation

There are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

### No Material Adverse Change

Except as disclosed in this offering circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2017 that is material in the context of the issue of the Notes.

### Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the Corporate Trust Office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the principal office of the Company.

### Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
Notes . . . . .	XS1756388069	175638806

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

## **LISTING OF THE NOTES**

Approval in principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering circular. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the Notes or the Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

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# Independent Auditor's Report

For the year ended 31 December 2017



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## TO THE SHAREHOLDERS OF CHINA HONGQIAO GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of China Hongqiao Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 50 to 154, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Transactions with related parties and disclosure;
- Impairment of property, plant and equipment;
- Impairment of goodwill; and
- Recoverability of a loan receivable

## KEY AUDIT MATTERS (Continued)

### TRANSACTIONS WITH RELATED PARTIES AND DISCLOSURE

Refer to note 48 to the consolidated financial statements.

#### The key audit matter

The Group had significant amount of transactions with related parties in both trade and non-trade nature.

We have identified this as a key audit matter because it is essential to monitor these transactions closely. It is also essential to disclose all these transactions properly in accordance with the requirements of relevant accounting standards and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### How the matter was addressed in our audit

Our procedures were designed to verify and identify related party relationship through enquiry and searches.

We have also scrutinised the accounting ledgers and bank ledgers to ensure material transactions with related parties are properly reflected in the Group's accounting records.

We have also carried out various analysis and market comparisons to assess the reasonableness of these transactions.

### IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Refer to note 16 to the consolidated financial statements.

#### The key audit matter

As at 31 December 2017, the carrying amount of property, plant and equipment amounted to approximately RMB83,985,765,000, representing a significant portion to the Group's total assets.

Since 2017, the PRC government has been forcing the suspension of aluminum plants that have not obtained proper permits to build or expand, or that have not met strict environmental standards, as the PRC government pushes to tackle air pollution issues and shore up loss-making industries. The Group is one of the targets of the PRC government and since June 2017, the Group has been shutting down or partially shutting down its older production plants or plants that have not obtained proper permits.

The Group engaged an independent professional valuer to perform valuation on property, plant and equipment as at 31 December 2017.

#### How the matter was addressed in our audit

We have obtained relevant government policies, notices and publications regarding the rectification of the aluminum industry.

We have obtained the full list of suspended property, plant and equipment and internal meeting minutes, records and annual budgets of the Group.

We have performed site visit of major property, plant and equipment, with specific focus on those suspended property, plant and equipment and cross check to our lists obtained.

We have considered the objectivity, independence and expertise of the valuer, and assessed the appropriateness of the valuation methodology. We challenged the data used as inputs for the valuation, which included discount rates, second hand market prices of comparables, transactions costs reviewed the basis of calculation and compared the input data to market sources.

## Independent Auditor's Report (Continued)

For the year ended 31 December 2017

### KEY AUDIT MATTERS (Continued)

#### IMPAIRMENT OF GOODWILL

Refer to note 21 to the consolidated financial statements.

##### The key audit matter

As at 31 December 2017, the carrying amount of goodwill amounted to approximately RMB1,265,763,000. An impairment loss on goodwill approximately RMB668,694,000 was recognised for the year ended 31 December 2017.

Management's assessment on impairment of goodwill is a judgemental process which requires estimates concerning the forecast future cash flows associated with the relevant cash-generating units, the discount rates and the growth rate of revenue and costs to be applied in determining the value-in-use and fair value less costs of disposal. The selection of valuation models, adoption of key assumptions and input data may be subject to management basis and changes in these assumptions and input to valuation models may result in significant financial impact.

The extent of judgment and the size of the goodwill resulted in this matter being identified as a key audit matter.

##### How the matter was addressed in our audit

In order to address this matter in our audit, we obtained management's impairment assessment and valuation report prepared by their valuation specialist and challenged the reasonableness of the selection of valuation models, adoption of key assumptions and input data may be subject to management basis and changes in adoption of key assumptions and input data. In particular, we reviewed the future cash flow forecast prepared by management on whether it is agreed to the budget approved by the board of directors of the Company and compared the budget with actual results available up to the report date. We also challenged the appropriateness of the assumptions, including the sales growth rates and gross margin, against latest market expectations.

We also challenged the discount rate employed in the calculation of value in use by reviewing its basis of calculation and comparing its input data to market sources.

#### RECOVERABILITY OF A LOAN RECEIVABLE

Refer to note 26 to the consolidated financial statements.

##### The key audit matter

As at 31 December 2017, the Group had a loan receivable including accrued interest of approximately RMB9,954,959,000 due from a supplier.

Taking into account the magnitude of loan receivable amount, the recoverability of such loan receivable posed a significant risk on the Group's liquidity.

Besides, the assessment on the recoverability of the loan receivable entails a significant degree of management judgement and may be subject to management bias.

We consider the assessment of impairment of the loan receivable is a key audit matter.

##### How the matter was addressed in our audit

Our audit procedures were designed to review management's assessment of indicators of impairment and evaluate the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts.

We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessing the management's impairment testing. We have evaluated the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and cash received after year end, as well as the recent creditworthiness of the supplier.



## **Independent Auditor's Report (Continued)**

For the year ended 31 December 2017

### **OTHER INFORMATION**

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Independent Auditor's Report (Continued)

For the year ended 31 December 2017

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## **Independent Auditor's Report (Continued)**

For the year ended 31 December 2017

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pang Wai Hang.

#### **SHINEWING (HK) CPA Limited**

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

23 March 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	5	93,312,652	61,395,578
Cost of sales		(78,428,941)	(47,199,245)
Gross profit		14,883,711	14,196,333
Other income and gains	7	3,945,187	1,019,222
Selling and distribution expenses		(269,603)	(164,269)
Administrative expenses		(2,062,327)	(2,080,550)
Other expenses	8	(5,676,945)	(20,063)
Finance costs	9	(4,080,113)	(3,345,896)
Changes in fair values of derivatives	29	(19,897)	25,987
Share of profits of associates	20	371,989	129,012
Gain on disposal of a subsidiary	44	–	4,561
Profit before taxation		7,092,002	9,764,337
Income tax expenses	10	(1,785,170)	(2,948,667)
Profit for the year	11	5,306,832	6,815,670
Attributable to:			
Owners of the Company		5,118,566	6,849,829
Non-controlling interests		188,266	(34,159)
		5,306,832	6,815,670
Other comprehensive (expense) income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translating foreign operations		(102,409)	144,464
Share of other comprehensive (expense) income of associates		(38,910)	7,231
		(141,319)	151,695
Total comprehensive income for the year, net of income tax		5,165,513	6,967,365
Total comprehensive income for the year attributable to			
Owners of the Company		5,032,617	6,945,267
Non-controlling interests		132,896	22,098
		5,165,513	6,967,365
Earnings per share	15		
– Basic (RMB)		0.6970	0.96
– Diluted (RMB)		0.6966	0.96

# Consolidated Statement of Financial Position

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	83,985,765	86,658,456
Intangible assets	17	13,972	–
Prepaid lease payments	18	3,806,787	3,066,503
Investment properties	19	150,931	–
Deposits paid for acquisition of property, plant and equipment		421,144	1,745,089
Deposits paid for acquisition of land		14,968	443,390
Deferred tax assets	37	1,784,856	557,322
Interests in associates	20	1,325,328	944,796
Goodwill	21	1,265,763	311,769
Other financial assets	27	–	14,631
Available-for-sale investments	22	6,000	–
		<b>92,775,514</b>	<b>93,741,956</b>
<b>CURRENT ASSETS</b>			
Prepaid lease payments	18	85,902	56,152
Inventories	23	15,585,330	17,143,324
Trade receivables	24	2,211,734	363,314
Bills receivables	25	11,912,479	9,721,942
Prepayments, loan and other receivables	26	12,359,225	8,242,544
Other financial assets	27	57	13,047
Restricted bank deposits	28	1,262,589	396,808
Cash and cash equivalents	28	21,925,568	12,842,380
		<b>65,342,884</b>	<b>48,779,511</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	30	16,060,100	7,506,386
Other payables and accruals	31	16,343,471	12,603,276
Bank borrowings – due within one year	32	9,529,148	14,310,943
Other financial liabilities	27	–	1,691
Income tax payable		1,163,430	724,632
Short-term debentures and notes	33	3,000,000	11,000,000
Medium-term debentures and bonds – due within one year	34	7,196,185	731,664
Guaranteed notes	35	1,957,399	2,768,436
Deferred income	38	15,321	6,106
		<b>55,265,054</b>	<b>49,653,134</b>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>10,077,830</b>	<b>(873,623)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>102,853,344</b>	<b>92,868,333</b>

## Consolidated Statement of Financial Position (Continued)

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	32	10,509,118	4,696,770
Liability component of convertible bonds	36	1,095,225	–
Derivatives component of convertible bonds	36	991,660	–
Deferred tax liabilities	37	505,125	578,097
Medium-term debentures and bonds – due after one year	34	36,271,871	39,720,060
Guaranteed notes	35	–	2,070,436
Deferred income	38	263,479	114,668
		<b>49,636,478</b>	47,180,031
<b>NET ASSETS</b>			
		<b>53,216,866</b>	45,688,302
<b>CAPITAL AND RESERVES</b>			
Share capital	39	526,966	474,057
Reserves	40	50,706,364	44,324,255
Equity attributable to owners of the Company		<b>51,233,330</b>	44,798,312
Non-controlling interests		<b>1,983,536</b>	889,990
<b>TOTAL EQUITY</b>		<b>53,216,866</b>	45,688,302

The consolidated financial statements on pages 50 to 154 were approved and authorised for issue by the board of directors on 23 March 2018 and are signed on its behalf by:

**Zhang Shiping**  
*Director*

**Zhang Bo**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 40)	Translation reserve RMB'000 (Note 40)	Statutory surplus reserve RMB'000 (Note 40)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	474,057	10,393,143	793,349	144,453	5,147,142	27,846,168	44,798,312	889,990	45,688,302
Profit for the year	-	-	-	-	-	5,118,566	5,118,566	188,266	5,306,832
<i>Other comprehensive (expenses) income for the year:</i>									
Exchange differences on translation of financial statements of foreign operations	-	-	-	(47,039)	-	-	(47,039)	(55,370)	(102,409)
Share of other comprehensive expense of associates	-	-	-	(38,910)	-	-	(38,910)	-	(38,910)
Total comprehensive (expense) income	-	-	-	(85,949)	-	5,118,566	5,032,617	132,896	5,165,513
Acquisition of subsidiaries (note 43)	-	-	-	-	-	-	-	960,650	960,650
Shares issued (note 39)	53,454	4,615,950	-	-	-	-	4,669,404	-	4,669,404
Share issue expenses	-	(1,440)	-	-	-	-	(1,440)	-	(1,440)
Final 2016 dividend declared	-	-	-	-	-	(1,840,322)	(1,840,322)	-	(1,840,322)
Special 2016 dividend declared	-	-	-	-	-	(1,363,201)	(1,363,201)	-	(1,363,201)
Transfer of reserves	-	-	-	-	849,174	(849,174)	-	-	-
Shares repurchased and cancelled (note 39)	(545)	(61,495)	-	-	-	-	(62,040)	-	(62,040)
At 31 December 2017	526,966	14,946,158	793,349	58,504	5,996,316	28,912,037	51,233,330	1,983,536	53,216,866

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 40)	Translation reserve RMB'000 (Note 40)	Statutory surplus reserve RMB'000 (Note 40)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016, restated	415,834	7,241,883	793,349	49,015	4,295,611	22,770,832	35,566,524	728,134	36,294,658
Profit (loss) for the year	-	-	-	-	-	6,849,829	6,849,829	(34,159)	6,815,670
<i>Other comprehensive income for the year:</i>									
Exchange differences on translation of financial statements of foreign operations	-	-	-	88,207	-	-	88,207	56,257	144,464
Share of other comprehensive income of associates	-	-	-	7,231	-	-	7,231	-	7,231
Total comprehensive income	-	-	-	95,438	-	6,849,829	6,945,267	22,098	6,967,365
Shares issued (note 39)	58,223	3,163,917	-	-	-	-	3,222,140	-	3,222,140
Share issue expenses	-	(12,657)	-	-	-	-	(12,657)	-	(12,657)
Final 2015 dividend declared	-	-	-	-	-	(930,705)	(930,705)	-	(930,705)
Transfer of reserves	-	-	-	-	851,531	(851,531)	-	-	-
Acquisition of additional interest of a subsidiary (note (a))	-	-	-	-	-	7,743	7,743	(7,743)	-
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	147,501	147,501
At 31 December 2016	474,057	10,393,143	793,349	144,453	5,147,142	27,846,168	44,798,312	889,990	45,688,302

Note:

- (a) On 1 April 2016, the Group injected additional share capital of approximately RMB200,012,000 to PT. Well Harvest Winning Alumina Refinery ("PT Well"), which increased the Group's interest in PT Well from 60% to approximately 61%, resulted in a deemed acquisition of 1% equity interests in PT Well.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	7,092,002	9,764,337
Adjustments for:		
Interest income	(614,497)	(104,628)
Finance costs	4,080,113	3,345,896
Share of profits of associates	(371,989)	(129,012)
Depreciation	7,780,493	5,596,906
(Gain) loss on disposal of property, plant and equipment	(8,096)	8,918
Loss (gain) on fair value changes of derivatives	19,897	(25,987)
Investment loss (gain) from derivatives	19,427	(18,070)
Expenses on issue of convertible bonds	10,390	–
Amortisation of prepaid lease payments	85,538	53,038
Amortisation of intangible assets	998	–
Reversal of impairment of inventories	(51,235)	(42,670)
Impairment loss recognised in respect of inventories	149,836	12,792
Impairment loss recognised in respect of trade receivables	7,133	6,708
Impairment loss recognised in respect of other receivables	22,519	563
Impairment loss recognised in respect of goodwill	668,694	–
Impairment loss recognised in respect of property, plant and equipment	4,828,763	–
Gain on disposal of a subsidiary	–	(4,561)
Amortisation of deferred income	(11,951)	(456)
Operating cash flows before movements in working capital	23,708,035	18,463,774
Decrease (increase) in inventories	1,436,790	(4,519,742)
(Increase) decrease in trade receivables	(1,601,060)	1,011,957
Increase in bills receivables	(2,190,537)	(1,601,730)
Decrease (increase) in prepayments and other receivables	4,840,542	(516,511)
Increase in restricted bank balance	(2,732)	(2,832)
Increase in trade and bills payables	8,506,782	1,704,872
Increase in other payables and accruals	604,491	607,440
Cash generated from operations	35,302,311	15,147,228
Income tax paid	(2,682,098)	(2,318,189)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>32,620,213</b>	<b>12,829,039</b>
<b>INVESTING ACTIVITIES</b>		
Advance to a supplier	(13,057,000)	–
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	(8,768,464)	(20,830,387)
Placement of restricted bank deposits	(3,073,310)	(1,684,063)
Net cash outflow arising on acquisition of subsidiaries	(568,195)	(2,116,523)
Addition to prepaid land lease payments and deposits for acquisition of land	(158,487)	(791,473)
Proceeds from disposal of property, plant and equipment	41,579	9,935
Interest income received	673,943	40,041
Withdrawal of restricted bank deposits	2,210,261	1,891,504
Repayment from a supplier	3,107,000	–
Receipt of government grants	–	68,740
Loans to associates	–	(378,500)
Proceeds from termination of derivatives	4,837	–
Repayment to a former shareholder of a newly acquired subsidiary (note 43)	–	(4,541,679)
Deposits paid for acquisition of a subsidiary (note 43)	–	(899,515)
Addition of an associate	–	(20,024)
Disposal of a subsidiary (note 44)	–	3,119
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(19,587,836)</b>	<b>(29,248,825)</b>



## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	17,918,696	15,742,657
Proceeds from issuance of short-term debentures and notes	8,000,000	16,000,000
Proceeds from issue of shares	4,669,404	3,222,140
Proceeds from issuance of medium-term debentures and bonds	3,000,000	28,800,000
Proceeds from issue of convertible bonds	2,113,088	–
Receipt of government grants	169,977	–
Transaction costs attributable to issue of new shares	(1,440)	(12,657)
Transaction costs on issuance of medium-term debentures and notes	(1,519)	(311,345)
Transaction costs on issuance of short-term debentures and notes	(15,864)	(62,000)
Transaction costs on issue of convertible bonds	(22,075)	–
Payment on repurchase of shares	(62,040)	–
Repayment of guaranteed notes	(2,877,945)	–
Interest expense paid	(3,993,065)	(2,820,045)
Repayment of short-term debentures and notes	(16,000,000)	(19,000,000)
Repayment of bank borrowings	(16,831,977)	(20,111,536)
Contribution from non-controlling shareholders	–	147,501
Repayment of other borrowings	–	(75,000)
Dividends paid to the owners of the Company	–	(930,705)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(3,934,760)</b>	<b>20,589,010</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,097,617</b>	<b>4,169,224</b>
Effect of changes in foreign exchange rates	(14,429)	184,622
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>12,842,380</b>	<b>8,488,534</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b> represented by bank balances and cash	<b>21,925,568</b>	<b>12,842,380</b>
<b>Analysis of Components of Cash and Cash Equivalents:</b>		
Cash and bank balances	20,723,800	12,827,380
Non-pledged time deposits with original maturity of less than three months when acquired	1,201,768	15,000
Cash and cash equivalents as stated in the consolidated statement of financial position	21,925,568	12,842,380
Cash and cash equivalents as stated in the consolidated statement of cash flows	21,925,568	12,842,380

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies Law of Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and immediate holding company is China Hongqiao Holdings Limited (“Hongqiao Holdings”), a company incorporated in the British Virgin Islands (“BVI”). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company, the principal activities of its subsidiaries (together with the Company, referred to as the “Group”) are set out in note 53.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its subsidiaries in the People’s Republic of China (“PRC”) and Hong Kong. The functional currency of the subsidiary established in Indonesia is denoted in Indonesia Rupiah (“IDR”).

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following amendments to IFRSs and amendments to International Accounting Standards (“IAS(s)”), issued by the International Accounting Standards Board (the “IASB”)

Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle: Amendments to IFRS 12
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Except as described below, the application of the amendments to other IFRSs and IASs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

### Amendments to IAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to IAS 7 has resulted in additional disclosures on the Group’s financing activities, especially a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities is provided in note 51. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods. Apart from the additional disclosure in note 51, the directors of the Company considered that these amendments have had no impact on the Group’s consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 (2014)	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>3</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle <sup>2</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to IAS 28	Long-term Interest in Associates and Joint Ventures <sup>2</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>4</sup> Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

#### IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an “expected credit loss” model for impairment assessments.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### New and revised IFRSs issued but not yet effective (Continued)

##### IFRS 9 (2014) Financial Instruments (Continued)

Key requirements of IFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of IFRS 9 (2014) to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), IFRS 9 (2014) requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

### New and revised IFRSs issued but not yet effective (Continued)

#### IFRS 9 (2014) Financial Instruments (Continued)

Key requirements of IFRS 9 (2014) are described below: (Continued)

- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company has performed a preliminary analysis of the Group’s financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of IFRS 9 (2014) on the Group’s results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

#### (a) *Classification and measurement*

The Group’s available-for-sale investments that are not held for trading and are currently stated at cost less impairment, The Group will make an irrevocable election to present in other comprehensive income the changes in fair value. For the derivatives component of convertible bonds designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk could be presented in other comprehensive income.

For other financial assets and financial liabilities, the directors of the Company expect to continue recognise initially at fair value for other financial assets which are subsequently measured at amortised costs. The directors of the Company anticipate that the adoption of IFRS 9 (2014) will not have a material impact on the classification and measurement of the financial assets.

#### (b) *Impairment*

The directors of the Company expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade, bills, loan and other receivables. The application of the expected credit loss model may result in earlier recognition of credit losses for trade, bills, loan and other receivables and increase the amount of impairment allowance recognised for these items.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### New and revised IFRSs issued but not yet effective (Continued)

##### IFRS 9 (2014) Financial Instruments (Continued)

Key requirements of IFRS 9 (2014) are described below: (Continued)

##### (b) Impairment (Continued)

The directors of the Company will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of IFRS 9 (2014). Based on the preliminary assessment, the directors of the Company expect that the adoption of IFRS 9 (2014) will not have other material impact on amounts reported in the Group’s consolidated financial statements.

##### IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- (i) Identify the contract with the customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations; and
- (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The major sources of revenue of the Group are sales of goods. Under IFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 *Revenue*. Furthermore, IFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the directors of the Company expect that the adoption of IFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at 31 December 2017.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

### New and revised IFRSs issued but not yet effective (Continued)

#### IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB7,893,000 as disclosed in note 46. Out of this balance, an amount of approximately RMB6,457,000 represents operating leases with original lease terms of over one year in which the Group will recognise right-to-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under IFRS 16. The directors of the Company expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of IFRS 16 will not have other material impact on amounts reported in the Group the measurement, presentation and disclosure to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### New and revised IFRSs issued but not yet effective (Continued)

##### IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation clarifies that, when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation.

When an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity is required to determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates consistently with that tax treatment. When an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity is required to reflect the effect of uncertainty in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates by either the most likely amount method or the expected value method that better predict the resolution of the uncertainty.

IFRIC-Int 23 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted. The amendments should be applied retrospectively.

The directors of the Company expect that the adoption of IFRIC-Int 23 may affect its consolidated financial statements and the required disclosures. In addition, the directors of the Company may need to establish processes and procedures to obtain information that is necessary to apply IFRIC-Int 23 on a timely basis.

##### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The application of this Interpretation is not restricted to revenue transactions.

IFRIC Interpretation 22 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the application of IFRIC Interpretation 22 may have impact on the Group's purchase in foreign currencies. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for other financial assets and liabilities that are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

#### *Changes in the Group's ownership interests in existing subsidiaries*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### Business combinations

Businesses combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with IAS 12 Income Taxes;
- assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with IAS 19 Employee Benefits;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Business combinations (Continued)**

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

#### **Goodwill**

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill relating to an associate that included in the carrying amount of the investment is set out in "investments in associates" below.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in associates (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business net of discounts.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leasing (Continued)

##### *The Group as lessee (Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Government grants (Continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

#### Retirement benefits costs and termination benefits

Payments to defined contribution plans including included state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

#### Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

#### **Intangible asset acquired in a business combination**

Intangible asset acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **Cash and cash equivalents**

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### ***Financial assets***

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments (Continued)**

##### ***Financial assets (Continued)***

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

##### *Financial assets at FVTPL*

A financial asset may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 42.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, loan and other receivables, restricted bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

##### *Impairment loss on financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, loan and bills receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Impairment loss on financial assets (Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, bills receivables, loan and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or bills receivable or loan and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment loss on available-for-sale equity investments will not be reversed through profit or loss.

##### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial liabilities and equity instruments (Continued)*

##### *Financial liabilities at FVTPL (Continued)*

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in profit or loss and excludes any interest paid on the financial liabilities. Fair value is determined in a manner described in note 42.

##### *Other financial liabilities*

Other financial liabilities including bank borrowings, trade and bills payables, other payable and accruals, dividend payables, short-term debentures and notes, medium-term debentures and bonds liability component of convertible bonds and guarantee notes are subsequently measured at amortised cost, using the effective interest method.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.



**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial instruments (Continued)**

***Convertible bonds***

Convertible bonds issued by the Group that contain the liability and derivatives (which are not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option and redemption option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments are classified as derivatives component. At the date of issue, both the liability and derivatives components are measured at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivatives component are charged directly to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Derecognition*

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Impairment losses on tangible assets and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Impairment losses on tangible assets and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above) (Continued)**

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Fair value measurement**

When measuring fair value for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### **Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

#### ***Ownership of the land and buildings***

Despite the Group has paid the full purchase consideration as detailed in notes 16 and 18, formal titles of certain of the Group's rights to the use of the land and buildings were not yet granted from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal title, the directors of Company determine to recognise these lands and buildings on the ground that they expect the legal titles being obtained in the future should have no major difficulties and the Group is in substance controlling these lands and buildings. In the opinion of the directors of Company, the absence of formal title to these lands and buildings does not impair the value of the relevant assets to the Group.

#### ***Controls in subsidiaries***

As per note 53 to the consolidated financial statements, Shandong Hongchuang Aluminum Industry Holding Company Limited (formerly known as Loften Environmental Technology Co., Ltd) ("Hongchuang") is a subsidiary of the Group even through the Group has only a 28.18% ownership interest in Hongchuang. Hongchuang is a public limited company incorporated in PRC and its shares are listed on the Shenzhen Stock Exchange. The Group has had 28.18% ownership interest since May 2017 and the remaining 71.82% of the ownership interests are held by numerous shareholders that are unrelated to the Group.

The directors of the Company assessed the Group's control over Hongchuang on the basis of its practical ability to direct the relevant activities unilaterally. In making their judgement, the directors of the Company consider that the Group holds significantly more voting rights than any other voting right holders or organised group of voting right holders, and the other shareholdings are widely dispersed, so the Group has the control over Hongchuang.

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

##### Critical judgements in applying accounting policies (Continued)

###### *Withholding tax provision on profit appropriation*

The Group provides for withholding taxes of 10% on certain of its PRC subsidiaries' distributable profits generated from 1 January 2011 onwards in compliance with the PRC Corporate Tax Law. The Group has provided for such withholding taxes on the basis that the Group is expected to appropriate in the foreseeable future the profits which the PRC subsidiaries generate. As at 31 December 2017, the amounts provided for withholding tax was RMB142,261,000 (2016: RMB233,849,000). Further details are given in note 37 to the consolidated financial statements.

###### *Related party transactions*

As per note 48 to the consolidated financial statements, the directors of the Company considered various entities, which are either associates of the Group or companies controlled or significantly influenced by a controlling shareholder of the Company, are related parties of the Group.

The directors of the Company regularly review and assess the list of entities and personnels that may fall within the definition of related parties under IAS 24 *Related Party Disclosures* and their transactions with the Group. In making their judgement, the directors of the Company consider both the legal and practical aspects in whether these entities are defined as related parties of the Group.

###### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

###### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use/fair value less cost of disposal of the cash-generating units ("CGUs") to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Estimating the fair value less costs of disposal requires the Group to make estimates on the blockage discount factor to be applied in selling its entire interests in the CGU and transaction costs involved. The carrying amount of goodwill at 31 December 2017 was RMB1,265,763,000 (2016: RMB311,769,000), net of accumulated impairment losses of RMB668,694,000 (2016: nil). Further details are given in note 21 to the consolidated financial statements.

###### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses and decelerated tax depreciation at 31 December 2017 were approximately RMB149,467,000 (2016: RMB298,724,000) and RMB1,151,816,000 (2016: nil), respectively. The amount of unrecognised tax losses at 31 December 2017 was approximately RMB1,481,719,000 (2016: RMB1,287,631,000). Further details are contained in note 37 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty (Continued)

##### *PRC Corporate Income Tax ("PRC CIT")*

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expense and tax provision in the period in which the differences realised.

##### *Impairment of property, plant and equipment*

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount. At the end of each reporting period, an impairment loss of approximately RMB4,828,763,000 (2016: nil) was recognised based on the impairment assessment performed by management with reference to valuations performed by an independent valuer. As at 31 December 2017, the carrying amount of property, plant and equipment is approximately RMB83,985,765,000 (2016: RMB86,658,456,000), net of accumulated impairment of approximately RMB4,828,763,000 (2016: nil).

##### *Impairment of a loan receivable*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of the loan receivable is approximately RMB9,954,959,000 (2016: nil). No impairment loss has been recognised as at 31 December 2017.

##### *Estimated allowance on inventories*

The Group's management assesses periodically whether net realisable values of inventories have been higher than their costs. For different types of inventories, it requires the exercise of accounting estimates on selling price, costs of conversion and selling expenses to calculate its net realisable value. It is reasonably possible that outcomes would be significantly affected if there is a significant change in circumstances, including the Group's business and the external environment. As at 31 December 2017, the carrying amount of inventories was approximately RMB15,585,330,000 (2016: RMB17,143,324,000) as disclosed in note 23 to the consolidated financial statements.

##### *Fair value of derivative components of convertible bonds*

The management of the Group uses their judgments in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivatives financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instruments. If the inputs and estimates applied in the model are different, the carrying amount of these derivatives may change. The carrying amounts of derivative component of convertible bonds of approximately RMB991,660,000 (2016: nil) as at 31 December 2017 are set out in note 36.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 5. REVENUE

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

	2017 RMB'000	2016 RMB'000
Revenue from sales of aluminum products		
– molten aluminum alloy	76,001,047	53,848,144
– aluminum alloy ingots	11,720,058	5,089,082
– aluminum fabrication	5,416,862	2,412,793
Steam supply income	174,685	45,559
	<b>93,312,652</b>	61,395,578

### 6. SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has only one reportable segment which is manufacture and sales of aluminum products. The Group conducts its principal operation in Mainland China. Management monitors the operating results of its business unit for the purpose of making decisions about resources allocation and performance assessment.

#### Geographic information

Revenue from external customers of the Group are mainly contributable to customers established in the PRC, the place of domicile of the Group's operating entities.

The Group operates principally in the PRC (including Hong Kong) and Indonesia. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Non-current assets	
	2017 RMB'000	2016 RMB'000
PRC	84,598,199	86,606,096
Indonesia	5,670,065	5,801,141
	<b>90,268,264</b>	92,407,237

Note: Non-current assets excluded financial instruments and deferred tax assets.

#### Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Customer A	44,833,430	27,632,747

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 7. OTHER INCOME AND GAINS

	2017 RMB'000	2016 RMB'000
Bank interest income	54,004	58,642
Other interest income	16,411	45,986
Loan receivables interest income	544,082	–
Gain from sales of raw materials	1,296,325	71,970
Gain from sales of scraps materials	254,202	184,062
Gain from sales of slag of carbon anode blocks	958,709	500,405
Gain from disposal of property, plant and equipment	8,096	–
Reversal of impairment of inventories	51,235	42,670
Investment gains from derivatives	–	18,070
Amortisation of deferred income (note 38)	11,951	456
Value-added tax (“VAT”) income (note)	40,066	36,087
Foreign exchange gain, net	529,161	–
Rental income	5,011	–
Others	175,934	60,874
	<b>3,945,187</b>	<b>1,019,222</b>

Note: Pursuant to the VAT reform, entities engaged in the finance lease business are eligible for refund of VAT that is in excess of 3% actual VAT rate. The amount represented such VAT refund income received by a subsidiary of the Company who is engaged in finance lease business.

### 8. OTHER EXPENSES

	2017 RMB'000	2016 RMB'000
Impairment loss recognised in respect of property, plant and equipment (Note)	4,828,763	–
Impairment loss recognised in respect of goodwill	668,694	–
Write-down of inventories to net realisable value (Note)	149,836	12,792
Impairment loss recognised in respect of other receivables	22,519	563
Impairment loss recognised in respect of trade receivables	7,133	6,708
	<b>5,676,945</b>	<b>20,063</b>

On 12 April 2017, the National Development and Reform Commission of the People's Republic of China (the “PRC”) (中國國家發展與改革委員會), the Ministry of Industry and Information Technology of the PRC (中國工業和信息化部), the Ministry of Land and Resources of the PRC (中國國土資源部) and the Ministry of Environmental Protection of the PRC (中國環境保護部) jointly issued Notice of Specific Action Working Plans Regarding Regulating Unlawful Electrolytic Aluminum Projects (《清理整頓電解鋁行業違法違規項目專項行動工作方案的通知》). The issuance of such policy manifests continuing promotion of the reform of the supply-side and healthy and stable development of Chinese aluminum industry by the PRC government. Details are set out in the announcement of the Company dated 15 August 2017.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 8. OTHER EXPENSES (Continued)

Due to the relevant governmental regulations, decisions and action plans in Chinese aluminum industry, the directors of the Company have shut down certain projects and conducted a review of the Group's property, plant and equipment and determined that a number of those property, plant and equipment were impaired. Accordingly, impairment losses of RMB4,828,763,000 and RMB149,836,000 have been recognised in respect of the Group's property, plant and equipment and inventories respectively. The relevant inventories have been written down to their net realisable values. The recoverable amounts of the relevant property, plant and equipment have been determined on the basis of their fair values less costs of disposal or value in use.

When any indicators of impairment are identified, property, plant and equipment are reviewed for impairment based on each CGU. The CGU is an individual plant or entity. The carrying values of these individual plants or entities were compared to the recoverable amounts of the CGUs, which were based predominantly on value-in-use. Value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are extrapolated using zero growth rate until the end of the expected useful lives of relevant plants and machineries. Other key assumptions applied in the impairment tests include the expected product price, demand for the products, product cost and related expenses. Management determined these key assumptions based on past performance and their expectations on market development. Further, the Group adopts a pre-tax rate of ranging from 12.7% to 14.0% (2016: nil) that reflects specific risks related to the CGUs as discount rates. The assumptions above are used in analysing the recoverable amounts of the CGUs within operating segments.

The valuation carried out on 31 December 2017 was performed by Wanlong (Shanghai) Assets Assessment Co, Ltd ("Wanlong"), an independent qualified professional valuer not connected with the Group. Wanlong has appropriate qualifications and has recent experience in the valuation of similar properties in the relevant locations.

The valuation of property, plant and equipment, which was measured subsequent to initial recognition at fair value, grouped into fair value hierarchy Level 3 based on the degree to which the inputs to fair value measurement observables. There were no transfers between levels of fair value hierarchy during the year.

### 9. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest expenses on bank borrowings	1,109,411	1,018,423
Interest expenses on other borrowings	–	9,482
Interest expenses on short-term debentures and notes	421,355	594,715
Interest expenses on medium-term debentures and bonds	2,304,152	1,522,945
Interest expenses on guaranteed notes	256,952	360,667
Interest expenses on convertible bonds	22,140	–
	4,114,010	3,506,232
Less: amounts capitalised under construction in progress	(33,897)	(160,336)
	4,080,113	3,345,896

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 4.38% (2016: 4.59%) per annum to expenditure on qualifying assets.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 10. INCOME TAX EXPENSES

	2017	2016
	RMB'000	RMB'000
Current tax:		
– PRC Enterprise Income Tax	3,123,194	2,949,785
(Over) under provision in prior year		
– PRC Enterprise Income Tax	(2,298)	3,700
Deferred taxation (note 37)	(1,335,726)	(4,818)
Total income tax expenses for the year	1,785,170	2,948,667

No tax is payable on the profit arising in Hong Kong for the year ended 31 December 2017 since the assessable profit is wholly absorbed by tax losses brought forward. No provision for Hong Kong Profits Tax was made for the year ended 31 December 2016 as there were no assessable profits generated during that year.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Under the prevailing CIT Law and its relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after 1 January 2008 to the Company's Hong Kong subsidiaries are subject to PRC dividend withholding tax of 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty. Deferred taxation has not been provided for in the consolidated financial statements in respect of undistributed profits of relevant PRC subsidiaries in 2008, 2009 and 2010 as the management confirmed that profits generated by the relevant PRC subsidiaries will not be distributed in the foreseeable future. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiaries are subject to PRC dividend withholding tax. The PRC dividend withholding tax rate was change from 5% to 10% due to the applicability of the Sino-Hong Kong tax treaty during the year ended 31 December 2015. An amount of deferred tax liability of approximately RMB91,588,000 (2016: RMB143,151,000) is released in respect of the PRC subsidiaries' undistributed profits.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 10. INCOME TAX EXPENSES (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 RMB'000	2016 RMB'000
Profit before taxation	7,092,002	9,764,337
Tax at the statutory tax rate of 25%	1,773,001	2,441,084
Tax effect of income not taxable for tax purpose	(66,593)	–
Tax effect of expenses not deductible for tax purpose	256,100	85,971
Tax effect of tax losses not recognised	197,752	265,600
Utilisation of tax losses previously not recognised	(153,204)	(4,336)
(Over) Under-provision in respect of prior years	(2,298)	3,700
Effect of different tax rates of subsidiaries operating in other jurisdiction	1,356	28,898
Effect of entity not subject to income tax	45,921	(1,300)
Tax effect of share of profits of associates	(92,997)	(32,253)
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	(91,588)	143,151
Tax effect of a tax facility granted by government	(82,280)	–
Others	–	18,152
Income tax expenses for the year	1,785,170	2,948,667

Details of the deferred taxation are set out in note 37.

### 11. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (note 12)	4,854	4,671
Salaries and allowances (excluding directors' and chief executive's emoluments)	3,554,360	3,417,468
Retirement benefit scheme contributions (excluding directors' and chief executive's emoluments)	153,431	122,910
Total staff costs	3,712,645	3,545,049
Auditor's remuneration	4,200	4,000
Amortisation of prepaid lease payments	85,538	53,038
Amortisation of intangible assets	998	–
Cost of inventories recognised as an expense	77,735,293	46,691,077
Depreciation of property, plant and equipment	7,774,952	5,596,906
Depreciation of investment properties	5,541	–
Investment loss on derivatives	19,427	–
Foreign exchange losses, net	–	778,954
Loss on disposal of property, plant and equipment	–	8,918

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 11 (2016: 8) directors and the chief executive were as follows:

	Executive directors			Non-executive directors				Independent non-executive directors				
	Zhang Shiping ("Mr Zhang")	Zheng Shuliang	Zhang Bo	Zhang Ruilian <sup>1</sup>	Yang Congsen	Zhang Jinglei	Chen Yisong (Zhang Hao alternate) <sup>2</sup>	Xing Jian	Chen Yinghai	Han Benwen	Dong Xinyi <sup>1</sup>	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the year ended</b>												
<b>31 December 2017</b>												
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings												
Fees	1,500	500	800	28	600	300	17	200	200	200	12	4,357
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings												
Other emoluments												
– Salaries and allowances	121	78	107	75	91	-	-	-	-	-	-	472
– Retirement benefit scheme contributions	-	-	9	8	8	-	-	-	-	-	-	25
	1,621	578	916	111	699	300	17	200	200	200	12	4,854

1 Appointed on 11 December 2017

2 Appointed on 11 December 2017 and resigned on 2 February 2018

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Executive directors			Non-executive directors		Independent non-executive directors			Total
	Zhang Shiping ("Mr Zhang") RMB'000	Zheng Shuliang RMB'000	Zhang Bo RMB'000	Yang Congsen RMB'000	Zhang Jinglei RMB'000	Xing Jian RMB'000	Chen Yinghai RMB'000	Han Benwen RMB'000	
For the year ended 31 December 2016									
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings									
Fees	1,500	500	800	600	300	200	200	200	4,300
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings									
Other emoluments									
- Salaries and allowances	97	74	95	89	-	-	-	-	355
- Retirement benefit scheme contributions	-	-	8	8	-	-	-	-	16
	1,597	574	903	697	300	200	200	200	4,671

None of the directors waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

There were no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

Zhang Bo is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to any director as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2017 and 2016.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2016: five) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining three (2016: nil) individuals were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	4,332	–
Retirement benefits scheme contributions	47	–
	<b>4,379</b>	–

Their emoluments were within the following bands:

	No. of employee 2017	2016
HK\$1,000,001 to HK\$1,500,000 (approximately RMB866,867 to RMB1,300,300)	1	–
HK\$1,500,001 to HK\$2,000,000 (approximately RMB1,300,301 to RMB1,733,733)	1	–
HK\$2,000,001 to HK\$2,500,000 (approximately RMB1,733,734 to RMB2,167,167)	1	–
	<b>3</b>	–

### 14. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2016 final dividends – HK27 cents per share	1,840,322	–
2016 special dividends – HK20 cents per share	1,363,201	–
2015 final dividends – HK15 cents per share	–	930,705
	<b>3,203,523</b>	930,705

Subsequent to the end of the reporting period, a final dividend of HK20 cents in respect of the year ended 31 December 2017 per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

During the current year, a final dividend of HK27 cents per share in respect of the year ended 31 December 2016 (2016: HK15 cents per share) has been proposed by the directors of the Company and is approved by the shareholders in the general meeting. Subsequent to the end of the reporting period, the final dividend of HK\$2,175,630,000 (equivalent to approximately RMB1,840,322,000) based on 8,057,888,193 shares was paid on 29 January 2018.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 14. DIVIDENDS (Continued)

During the current year, a special dividend of HK20 cents per share in respect of the year ended 31 December 2016 (2016: nil) has been proposed by the directors of the Company and is approved by the shareholders in the general meeting. Subsequent to the end of the reporting period, the special dividend of HK\$1,611,578,000 (equivalent to approximately RMB1,363,201,000) based on 8,057,888,193 shares was paid on 29 January 2018.

During the year ended 31 December 2016, a final dividend of HK\$1,082,597,000 (equivalent to approximately RMB930,705,000), at HK15 cents per share in respect of the year ended 31 December 2015 was proposed by the directors of the Company and approved by the shareholders in the annual general meeting and paid to the owners of the Company.

No interim dividend was paid or proposed during the year ended 31 December 2017 (2016: nil).

### 15. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	5,118,566	6,849,829
Effect of dilutive potential ordinary shares:		
Interest expense on liability component of convertible bonds	22,140	–
Changes in fair values of derivatives component of convertible bonds	18,231	–
Exchange gain on translation of liability component of convertible bonds	(24,068)	–
Earnings for the purpose of diluted earnings per share	5,134,869	6,849,829
	2017 '000	2016 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share		
Weighted average number of ordinary shares in issue during the year	7,343,286	7,142,521
Bonus element of rights issue	–	3,022
	7,343,286	7,145,543
Effect of dilutive potential ordinary shares:		
Convertible bonds	28,571	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,371,857	7,145,543

Diluted earnings per share for the year ended 31 December 2016 was the same as basic earnings per share as there were no potential ordinary shares outstanding during that year or as at 31 December 2016.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2016	19,685,226	47,804,117	27,254	54,937	15,402,971	82,974,505
Additions	209,691	632,149	26,457	3,290	20,263,817	21,135,404
Acquired on acquisition of subsidiaries (note 43)	2,286,407	1,663,136	3,075	–	932,098	4,884,716
Transfer	12,574,613	15,830,453	3,645	7,413	(28,416,124)	–
Disposals	(659)	(34,270)	–	–	–	(34,929)
Return to supplier	–	–	–	–	(3,955,477)	(3,955,477)
Disposal of a subsidiary	–	(2,104)	–	–	(2,277)	(4,381)
Exchange realignment	902	3,352	473	550	304,264	309,541
At 31 December 2016 and 1 January 2017	34,756,180	65,896,833	60,904	66,190	4,529,272	105,309,379
Additions	107	141,313	13,846	12,531	9,906,271	10,074,068
Acquired on acquisition of subsidiaries (note 43)	54,965	135,840	583	554	–	191,942
Transfer	2,096,620	6,121,934	–	–	(8,218,554)	–
Disposals	–	(669,588)	–	(75)	–	(669,663)
Exchange realignment	(230,447)	(70,828)	(3,270)	(438)	(16,538)	(321,521)
At 31 December 2017	36,677,425	71,555,504	72,063	78,762	6,200,451	114,584,205
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2016	2,302,202	10,736,139	9,803	21,125	–	13,069,269
Provided for the year	1,250,159	4,321,121	18,669	6,957	–	5,596,906
Eliminated on disposal	(115)	(15,961)	–	–	–	(16,076)
Eliminated on disposal of a subsidiary	–	(65)	–	–	–	(65)
Exchange realignment	94	594	122	79	–	889
At 31 December 2016 and 1 January 2017	3,552,340	15,041,828	28,594	28,161	–	18,650,923
Provided for the year	1,542,483	6,208,364	15,730	8,375	–	7,774,952
Impairment loss recognised	1,498,866	2,389,483	253	258	939,903	4,828,763
Eliminated on disposal	–	(636,128)	–	(52)	–	(636,180)
Exchange realignment	(12,728)	(6,487)	(645)	(158)	–	(20,018)
At 31 December 2017	6,580,961	22,997,060	43,932	36,584	939,903	30,598,440
<b>CARRYING VALUES</b>						
At 31 December 2017	30,096,464	48,558,444	28,131	42,178	5,260,548	83,985,765
At 31 December 2016	31,203,840	50,855,005	32,310	38,029	4,529,272	86,658,456



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	20-30 years
Plant and machinery	5-20 years
Furniture and fixtures	5-14 years
Motor vehicle	10 years

The buildings are situated in PRC and held under medium lease term.

At 31 December 2017, certain of the Group's buildings with a net carrying amount of approximately RMB9,307,202,000 (2016: nil) were pledged to secure bank borrowings of the Group (note 32).

There are properties with a carrying amount of approximately RMB5,363,557,000 (2016: RMB3,351,666,000) located in the PRC of which the Group is in the process of obtaining the ownership certificates. In the opinion of the directors of the Company, there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 17. INTANGIBLE ASSETS

	<b>Patents</b>
	<b>RMB'000</b>
<b>COST</b>	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Acquired on acquisition of subsidiaries (note 43)	<b>14,970</b>
At 31 December 2017	<b>14,970</b>
<b>ACCUMULATED AMORTISATION</b>	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Provided for the year	<b>998</b>
At 31 December 2017	<b>998</b>
<b>CARRYING VALUES</b>	
At 31 December 2017	<b>13,972</b>
At 31 December 2016	–

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over range from 10 to 20 years.

### 18. PREPAID LEASE PAYMENTS

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Carrying amount at 1 January	<b>3,122,655</b>	1,776,364
Addition during the year	<b>586,909</b>	348,083
Acquired on acquisition of subsidiaries (note 43)	<b>270,348</b>	1,049,391
Amortisation during the year	<b>(85,538)</b>	(53,038)
Exchange realignment	<b>(1,685)</b>	1,855
Carrying amount at 31 December	<b>3,892,689</b>	3,122,655
Analysed for reporting purposes as:		
Current assets	<b>85,902</b>	56,152
Non-current assets	<b>3,806,787</b>	3,066,503
	<b>3,892,689</b>	3,122,655

The amount represents the prepayment of rentals for land use rights in the PRC for a period of 20 to 70 years.

There are prepaid lease payments with carrying amount of approximately RMB725,064,000 (2016: RMB426,536,000) located in the PRC which the Group is in the process of obtaining the property certificates.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 19. INVESTMENT PROPERTIES

	RMB'000
<b>COST</b>	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Acquired on acquisition of subsidiaries (note 43)	156,472
At 31 December 2017	156,472
<b>ACCUMULATED DEPRECIATION</b>	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Provided for the year	5,541
At 31 December 2017	5,541
<b>CARRYING VALUES</b>	
At 31 December 2017	150,931
At 31 December 2016	–

The fair value of the Group's investment property as at 31 December 2017 was approximately RMB156,472,000. The fair value has been arrived at with reference to a valuation carried out by Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd, independent qualified professional valuers, not connected to the Group. The fair value was determined with reference to recent market prices for similar properties in similar locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The above investment properties are depreciated on a straight-line basis over the terms of the lease range from 6 to 20 years.

The fair value hierarchy as at 31 December 2017 of the investment properties of the Group are at Level 3. There were no transfers between fair value hierarchies during the year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 19. INVESTMENT PROPERTIES (Continued)

The following table gives information about how the fair values of the investment properties as at 31 December 2017 were determined (in particular, the valuation techniques and inputs used):

Alignment	Fair value hierarchy	Fair value as at 31 December 2017 RMB'000	Valuation techniques and key inputs	Significant unobservable inputs	Range	Relationship of key inputs and significant unobservable inputs to fair value
Investment properties	Level 3	156,472	Depreciated replacement cost ("DRC") approach, Key inputs: Market placement cost, assets residual ratio	Market Replacement cost per square metre/ per unit	Approximately RMB1,000 per square metre/ from approximately of RMB7,000 to RMB689,000 per unit	The higher the market replacement cost, the higher the fair value
				Assets residual ratio	From approximately 69% to 81%	The higher the assets residual ratio, the lower the fair value

### 20. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Costs of investments in associates	20,227	20,308
Disposed during the year	–	(81)
Share of profits and other comprehensive income	588,707	161,722
Elimination of post-acquisition loss shared upon disposal	–	81
	<b>608,934</b>	182,030
Loans to associates	<b>716,394</b>	762,766
	<b>1,325,328</b>	944,796

The loans to associates are unsecured, interest-free and repayable on demand (2016: repaid within 2 years).

The Group's payable balances with the associates are disclosed in note 48 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 20. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2017 and 2016, the Group had interests in the following material associates:

Name of entity	Form of entity	Country of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held		Principal activities
					2017	2016	2017	2016	
Société à Responsabilité Limitée Unipersonnelle ("SMB")	Incorporated	Guinea	Guinea	Ordinary	22.5%	22.5%	22.5%	22.5%	Mineral exploration
Winning Alliance Ports SA ("WAP") (note)	Incorporated	Guinea	Guinea	Ordinary	22.5%	22.5%	22.5%	22.5%	Port operation
Africa Bauxite Mining Company Ltd. ("ABM")	Incorporated	BVI	Singapore	Ordinary	25%	25%	25%	25%	Trading of bauxite
中衡協力投資有限公司 ("Zhong Heng")	Established	PRC	PRC	Ordinary	20%	20%	20%	20%	Inactive

Note: The Group disposed its 2.5% interest in both WAP and SMB at nil consideration during the year ended 31 December 2016. As the Group discontinued to recognise losses of both WAP and SMB in prior years, no gain/loss was resulted.

The Group's shareholdings in the associates all comprise equity shares held by a wholly-owned subsidiary of the Company.

The financial years of the above associates are coterminous with that of the Group.

The summarised financial information in respect of the associate that is material to the Group and accounted for using equity method is set out below:

#### ABM

	2017	2016
	RMB'000	RMB'000
Current assets	3,598,218	739,048
Current liabilities	(1,304,501)	(90,897)
Revenue	6,183,627	2,459,346
Profit for the year	1,863,881	556,552
Other comprehensive (expense) income for the year	(155,641)	28,924
Total comprehensive income for the year	1,708,240	585,476
Elimination of unrealised profits	(93,825)	(8,231)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 20. INTERESTS IN ASSOCIATES (Continued)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in the associate is set out below:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Net assets of the associate	<b>2,356,391</b>	648,151
Proportion of the Group's ownership interest in ABM	<b>25%</b>	25%
Carrying amount of the Group's interest in ABM	<b>589,098</b>	162,038

The financial information and carrying amount, in aggregate, of the Group's interests in associates that are not individually material and are accounted for using the equity method are set out below:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
The Group's share of loss and total comprehensive expense	<b>(156)</b>	(32)

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Carrying amount of the Group's interests in immaterial associates	<b>19,836</b>	19,992

The Group has stopped recognising its share of losses of certain associates when applying the equity method. The unrecognised share of those associates, both for the year and cumulatively, are set out below:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Unrecognised share of profits (losses) of associates for the year	<b>35,275</b>	(41,820)

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Accumulated unrecognised share of losses of associates	<b>23,186</b>	58,461

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 21. GOODWILL

	2017 RMB'000	2016 RMB'000
<b>COST</b>		
At beginning of the financial year	311,769	80,418
Acquired on acquisition of subsidiaries (note 43)	1,622,688	231,351
At the end of the financial year	1,934,457	311,769
<b>ACCUMULATED IMPAIRMENT LOSSES</b>		
At beginning of the financial year	–	–
Impairment loss recognised during the year	668,694	–
At the end of the financial year	668,694	–
<b>CARRYING AMOUNT</b>		
At 31 December	1,265,763	311,769

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

During the year ended 31 December 2017, the Group recognised an impairment loss of approximately RMB668,694,000 (2016: Nil) in relation to goodwill arising on acquisition of Hongchuang, resulting in the carrying amount of the CGU being written down to its recoverable amount. The impairment loss of goodwill was resulted from decline in quoted share price of Hongchuang.

#### Impairment test on goodwill

For the purposes of impairment testing, goodwill has been allocated to the following CGU.

	2017 RMB'000	2016 RMB'000
Manufacture and selling of aluminum products in Beihai, the PRC (Unit A)	231,351	231,351
Manufacture and selling of aluminum products in Binzhou, the PRC (Unit B)	80,418	80,418
Manufacture and selling of aluminum products in Boxing, the PRC (Hongchuang)	953,994	–
	1,265,763	311,769

The basis of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

#### Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and pre-tax discount rate of 22.63% (2016: 14.04%). Unit A's cash flows beyond the 3-year period are extrapolated using a zero growth rate. The financial budgets estimated are consistent with the track record of the Group's projections. Senior management believes that this growth rate is justified as it is within the long-term growth rate of the industry. The Group is the pioneer of aluminum manufacturing industry technology which has reduced the cost and time of production, and these industrial products qualify for major products of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 21. GOODWILL (Continued)

#### Unit A (Continued)

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A to exceed the aggregate recoverable amount of Unit A.

#### Unit B

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and a pre-tax discount rate of 22.63% (2016: 14.7%). Unit B's cash flows beyond the 3-year period are extrapolated using a zero growth rate. The financial budgets estimated are consistent with the track record of the Group's projections. Senior management believes that this growth rate is justified as it is within the long-term growth rate of the industry. The Group is the pioneer of aluminum manufacturing industry technology which has reduced the cost and time of production, and these industrial products qualify for major products of the Group.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B to exceed the aggregate recoverable amount of Unit B.

#### Hongchuang

The recoverable amount of this CGU approximates to RMB1,336,469,000 (2016: nil) has been determined based on fair value less costs of disposal, which is determined by reference to the quoted share price of Hongchuang, and a blockage discount factor of 4.04% (2016: nil) and relevant transaction costs.

The key assumption for the fair value less costs of disposal is the blockage factor applied to the quoted share price of Hongchuang, where management considered that the normal daily trading volume for the shares is not sufficient to absorb the quantity of shares held by the Group and therefore placing orders to sell the Group's interest in Hongchuang in a single transaction might affect the quoted price. In determining the blockage factor, management mainly takes into accounts the relevant rules and regulations in shares transactions and historical transaction records in the Shenzhen Stock Exchange.

The fair value hierarchy as at 31 December 2017 of Hongchuang are at Level 2. There were no transfers between fair value hierarchies during the year.

### 22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2017	2016
	RMB'000	RMB'000
Unlisted investments:		
– equity securities	6,000	–

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 23. INVENTORIES

	2017	2016
	RMB'000	RMB'000
Raw materials	6,844,106	7,726,267
Work in progress	7,510,528	7,956,444
Finished goods	1,230,696	1,460,613
	<b>15,585,330</b>	17,143,324

As 31 December 2017, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB149,836,000 (2016: RMB12,792,000).

During the year, inventories previously provided were sold at profit. As a result, a reversal of provision of approximately RMB51,235,000 (2016: RMB42,670,000) has been recognised and included in other income and gains in the current year.

### 24. TRADE RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	2,225,575	370,022
Less: allowance for impairment losses	(13,841)	(6,708)
	<b>2,211,734</b>	363,314

The Group allows an average credit period of 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 presented based on the date of delivery of goods, which approximates the respective revenue recognition dates, at the end of the reporting period.

The Group has a policy of allowing average credit period of 90 days to its trade customers.

	2017	2016
	RMB'000	RMB'000
Within 3 months	2,142,452	355,508
3-12 months	68,663	7,806
12-24 months	618	-
24-36 months	1	-
	<b>2,211,734</b>	363,314

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 24. TRADE RECEIVABLES (Continued)

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB69,282,000 (2016: RMB7,806,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and they are still considered as recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 90 days (2016: 180 days).

The aged analysis of trade receivables which are past due but not impaired is set out below:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Neither past due nor impaired	<b>2,187,795</b>	355,508
Less than 1 month past due	<b>3,606</b>	1,428
More than 1 month but less than 3 months past due	<b>20,333</b>	6,378
	<b>2,211,734</b>	363,314

In determining the recoverability of the trade receivables, the Group reassesses the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period.

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the allowance for impairment for trade receivables:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
At 1 January	<b>6,708</b>	–
Impairment loss recognised	<b>7,133</b>	6,708
At 31 December	<b>13,841</b>	6,708

At 31 December 2017, the Group's trade receivables of approximately RMB13,841,000 (2016: RMB6,708,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that full amount of these receivables is unlikely to be recovered. Consequently full provision for these doubtful debts was recognised. The Group does not hold any collateral over these balances.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 25. BILLS RECEIVABLES

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Bills receivables	<b>11,912,479</b>	9,721,942

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

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>5,116,948</b>	5,080,553
3 to 6 months	<b>6,567,541</b>	4,632,489
Over 6 months	<b>227,990</b>	8,900
	<b>11,912,479</b>	9,721,942

### TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has retained the significant risks and rewards which include default risks, relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the corresponding trade payables and other payables in the consolidated statement of financial position. Subsequent to the endorsement, the Group did not retain any rights on the use of the endorsed bills, including the sale, transfer or pledge of the endorsed bills to any other third parties. These financial assets and financial liabilities are carried at amortised cost in the consolidated statement of financial position.

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Bills receivable endorsed to suppliers with full recourse (note)		
Carrying amount of transferred assets	<b>11,772,983</b>	6,044,736
Carrying amount of trade payables	<b>(11,647,437)</b>	(1,029,079)
Carrying amount of other payables	<b>(125,546)</b>	(5,015,657)
Net position as at 31 December	-	-

Note: The maturity dates of bills receivables have not yet due at the end of the reporting period. As the Group was still exposed to credit risk on these receivables at the end of the reporting period, the cash received from the bills endorsed to the suppliers for which the maturity dates have not yet been due are recognised as current liabilities in the consolidated statement of financial position.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 26. PREPAYMENTS, LOAN AND OTHER RECEIVABLES

The balance consists of prepayments, loan and other receivables at cost of:

	2017 RMB'000	2016 RMB'000
Prepayments to suppliers	527,893	363,199
Value-added tax recoverable	1,349,270	2,443,685
CIT refundable	81,656	65,721
Receivables arising from dealing with futures	268,996	118,070
Interest receivables	5,141	64,587
Amounts due from related parties	–	23,364
Loan receivable (note ii)	9,950,000	–
Amount refundable from a supplier	–	3,955,477
Deposits paid for acquisition of a subsidiary (note i)	–	899,515
Other deposits	–	150,000
Others	199,349	159,487
	<b>12,382,305</b>	<b>8,243,105</b>
Less: allowance for impairment losses	<b>(23,080)</b>	<b>(561)</b>
	<b>12,359,225</b>	<b>8,242,544</b>

Notes:

- (i) On 16 May 2016, Shandong Hongqiao New Material Co., Ltd (“Shandong Hongqiao”) (山東宏橋新型材料有限公司) entered into a Memorandum of Understanding (“MOU”) with Mr. Yu Rongqiang (“Mr. Yu”) in relation to the proposed acquisition of 261,096,605 shares (“Target Shares”) of Hongchuang, representing approximately 28.18% equity interest of Hongchuang. Pursuant to the MOU, the consideration of this proposed acquisition shall be not more than RMB900,000,000 and such consideration shall be paid in full at the closing of the proposed acquisition. On 16 May 2016, Shandong Hongqiao paid the deposit in the amount of RMB500,000,000 to an account co-managed by the two parties. On 14 July 2016, Shandong Hongqiao paid remaining deposits in the amount of RMB400,000,000 to the same account co-managed by the two parties, and Mr. Yu’s 254,710,000 shares of Hongchuang were pledged to Shandong Hongqiao on the same date. On 29 July 2016, the remaining 6,386,605 of the Target Shares were pledged to Shandong Hongqiao by Mr. Yu. These deposits are retained as payment of the consideration by Shandong Hongqiao for the proposed acquisition. The acquisition was subsequently completed on 21 April 2017.
- (ii) On 10 February 2017, the Group entered into a loan facility agreement with a supplier of the Group, pursuant to which the Group agreed to provide a loan facility to the supplier of no more than RMB15,000,000,000. As at 31 December 2017, the outstanding principal and accrued interest amounted to approximately RMB9,954,959,000 (2016: nil). The loan receivable is unsecured, bears interest at 7% per annum and repayable one year from 17 February 2017, the drawdown date. The carrying amount of the loan receivable has been guaranteed by a related company of the Group, in which the director and controlling shareholder of the Company has significant non-controlling beneficial interest. Subsequent to the end of the reporting period, on 10 February 2018, the loan agreement was renewed and the repayment date was extended to 2 years from the drawdown date.

The above loan money represents part of a participation contribution into an industrial fund initiated by the Zouping County government in order to actively carry out the supply side reform of the aluminum industry. As a leading enterprise in the local aluminum industry cluster, the Group actively participates in the establishment and preparation of such industrial funds according to the work arrangement of the Zouping County government. It is understood that this initial contribution will be used mainly for the preparation and formation of industrial fund. Up to the date of this report, the industrial fund has already been set up, the final fund contribution plan has not been confirmed, but no formal agreement has been signed with the Company. The Company will make relevant disclosures based on the progress. The Company believes that the establishment of such industrial funds will help to reduce the risk of industrial policy and promote the cooperative and healthy development of industrial clusters.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 26. PREPAYMENTS, LOAN AND OTHER RECEIVABLES (Continued)

Movement in the allowance for impairment for other receivables:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
At 1 January	<b>561</b>	–
Impairment loss recognised	<b>22,519</b>	563
Exchange realignment	–	(2)
At 31 December	<b>23,080</b>	561

At 31 December 2017, the Group's other receivables of approximately RMB23,080,000 (2016: RMB561,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that full amount of these receivables is unlikely to be recovered. Consequently full provision for these doubtful debts was recognised. The Group does not hold any collateral over these balances.

### 27. OTHER FINANCIAL ASSETS (LIABILITIES)

	Current		Non-current	
	2017	2016	2017	2016
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
<b>Other derivatives</b>				
Interest rate swap	–	–	–	11,123
Foreign currency swap	<b>57</b>	4,516	–	3,508
Capped forward	–	8,531	–	–
Futures	–	(1,691)	–	–
	<b>57</b>	11,356	–	14,631
			<b>2017</b>	2016
			<b>RMB'000</b>	RMB'000
Amounts shown under non-current assets			–	14,631
Amounts shown under current assets			<b>57</b>	13,047
Amounts shown under current liabilities			–	(1,691)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 27. OTHER FINANCIAL ASSETS (LIABILITIES) (Continued)

#### Year ended 31 December 2017

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Sell RMB65,200,000	27 April 2018	RMB6.52:US\$1

#### Year ended 31 December 2016

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
US Dollars ("US\$") 8,000,000 to US\$20,000,000	24 June 2019	From 0.85% per annum to 1-Month USD-LIBOR-BBA
US\$40,000,000 to US\$100,000,000	24 June 2019	From 0.79% per annum to 1-Month USD-LIBOR-BBA
US\$20,000,000	24 June 2019	From 0.86% per annum to USD 1-Month LIBOR

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Sell RMB52,640,000	28 April 2017	RMB6.58:US\$1
Sell RMB65,800,000	28 July 2017	RMB6.58:US\$1
Sell RMB65,200,000	27 April 2018	RMB6.52:US\$1
Sell RMB65,800,000	3 May 2018	RMB6.58:US\$1

Major terms of the capped forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Receive RMB3,000,000/ Right to sell RMB135,400,000 Sell RMB135,400,000	28 June 2017	Above RMB6.92:US\$1/ Between 6.77 and 6.92/ Below RMB6.92:US\$1
Receive RMB8,000,000/ Right to sell RMB130,500,000/ Sell RMB130,500,000	7 April 2017	Above RMB6.925:US\$1/ Between 6.525 and 6.925/ Below RMB6.525:US\$1

Major terms of the futures contracts are as follows:

Commodities	Price range	Maturity date
Buy Aluminum	RMB12,830 to RMB13,170 per tonne	February 2017 to May 2017

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 28. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Cash and bank balances	<b>21,931,132</b>	12,830,212
Time deposits	<b>1,257,025</b>	408,976
	<b>23,188,157</b>	13,239,188
Less:		
Restricted bank deposits:		
– pledged for bills payable	<b>(1,000,000)</b>	–
– pledged for issuance of letter of credit	<b>(230,025)</b>	(265,976)
– pledged for guarantee issued	<b>(27,000)</b>	(128,000)
– other restricted bank balances (note 50)	<b>(5,564)</b>	(2,832)
Cash and cash equivalents	<b>21,925,568</b>	12,842,380

Cash and cash equivalents are principally RMB-denominated deposits placed with banks in the PRC. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Bank balances and time deposits carry interest at market rates which range from 0.01% to 1.75% (2016: 0.01% to 3.0%) per annum.

As at 31 December 2017, bank balances of approximately RMB5,564,000 (2016: RMB2,832,000) were frozen by the Zhang Yuan Xian District Court. Details are set out in note 50.

Pledged time deposits represents deposits pledged to banks to secure short-term banking facilities granted to the Group and guarantee issued by the Group. The time deposits carry fixed interest rate from 1.5% to 1.75% (2016: 0.05% to 3.30%) per annum.

### 29. CHANGES IN FAIR VALUE OF DERIVATIVES

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Change in fair value of derivatives arising from:		
– other financial assets (note 27)	<b>(1,666)</b>	25,987
– derivatives component of convertible bonds (note 36)	<b>(18,231)</b>	–
	<b>(19,897)</b>	25,987

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 30. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	RMB'000
Trade payables to third parties	13,787,489	7,395,478
Trade payables to an associate	272,611	110,908
	<b>14,060,100</b>	7,506,386
Bills payables	2,000,000	–
	<b>16,060,100</b>	7,506,386

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	2017	2016
	RMB'000	RMB'000
Within 6 months	13,894,747	7,462,550
6-12 months	122,227	31,927
1-2 years	37,417	7,541
More than 2 years	5,709	4,368
	<b>14,060,100</b>	7,506,386

The average credit period on purchases of goods is six months. The trade payables are non-interest-bearing and are normally settled on a term of to six months. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Bills payable were bills of acceptance with maturity of less than one year.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 31. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	RMB'000
Payables on property, plant and equipment	6,099,707	6,151,945
Retention payables	2,944,324	2,832,619
Accrued payroll and welfare	384,692	454,188
Advances from customers	710,110	781,768
Dividend payables (note 14)	3,165,766	–
Other taxes payables	1,032,312	751,569
Interest payable	1,521,194	1,442,886
Others	485,366	188,301
	<b>16,343,471</b>	<b>12,603,276</b>

### 32. BANK BORROWINGS

	2017	2016
	RMB'000	RMB'000
<b>Current</b>		
Secured bank borrowings	763,677	–
Unsecured bank borrowings	8,765,471	9,528,947
Unsecured syndicated loans	–	4,781,996
	<b>9,529,148</b>	<b>14,310,943</b>
<b>Non-current</b>		
Secured bank borrowings	8,152,406	–
Unsecured bank borrowings (note i)	2,356,712	4,696,770
	<b>10,509,118</b>	<b>4,696,770</b>
	<b>20,038,266</b>	<b>19,007,713</b>

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2017	2016
	RMB'000	RMB'000
Within one year	9,529,148	14,310,943
In the second year	2,704,632	3,529,985
In the third to fifth years, inclusive	7,804,486	1,166,785
	<b>20,038,266</b>	<b>19,007,713</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 32. BANK BORROWINGS (Continued)

	2017 RMB'000	2016 RMB'000
Carrying amount of bank borrowings that are not repayable on demand or within one year from the end of the reporting period but repayable according to a revised repayment schedule due to breach of loan covenants (note ii)	–	4,781,996
Carrying amount of bank borrowings that repayable within one year	<b>9,529,148</b>	9,528,947
Amounts shown under current liabilities	<b>9,529,148</b>	14,310,943
Amounts shown under non-current liabilities	<b>10,509,118</b>	4,696,770
	<b>20,038,266</b>	19,007,713

The exposure of the Group's fixed-rate bank borrowings and the contractual maturity dates (or reset dates) are as follows:

	2017 RMB'000	2016 RMB'000
Fixed-rate borrowings:		
On demand		
Within one year	<b>4,249,961</b>	1,813,745

In addition, the Group has variable-rate borrowings denominated in RMB at floating rates calculated based on the borrowing rates announced by the People's Bank of China (the "PBOC") or China Foreign Exchange Trading System & National Interbank Funding Center ("CFETS"). Interests on borrowings denominated in US\$ and HK\$ at floating rates are calculated based on London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") respectively.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	<b>3.15% to 6.09%</b>	2.00% to 4.35%
Variable-rate borrowings	<b>3.90% to 6.09%</b>	1.14% to 5.89%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 32. BANK BORROWINGS (Continued)

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
US\$	<b>6,316,266</b>	10,932,384

Notes:

- (i) Bank borrowings of approximately RMB499,000,000 (2016: RMB450,000,000) are guaranteed by a related party was set out in note 48(c) to the consolidated financial statements.
- (ii) In 2017, in respect of a syndicated loan with a carrying amount of RMB4,781,996,000 as at 31 December 2016, the Group breached certain of the terms of the syndicated loan, which are primarily related to the annual reporting requirements of the Group, which requires the Group to provide its 2016 annual audited accounts 120 days from the end of the reporting period.

On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. The Group has successfully obtained extension of the reporting requirements to 180 days and 242 days from the end of the reporting period on 12 April 2017 and 30 June 2017 respectively. However, up to the date of issue of 2016 annual report, the Group was unable to obtain further extension of the reporting requirements, which implies that the syndicated loan have to be fully repaid by the end of 31 December 2017. According to the revised repayment schedule, the Group has to repay 10% of the outstanding sum monthly in July and August 2017 and 20% monthly from September 2017 to December 2017.

As a result, the entire syndicated loan was classified as current liabilities on the consolidated statement of financial position as at 31 December 2016 and fully repaid during the year ended 31 December 2017.

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Floating rate		
– expiring within one year	<b>1,010,807</b>	350,000

- (iii) Secured borrowings of the Group are by the Group's property, plant and equipment (note 16).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 33. SHORT-TERM DEBENTURES AND NOTES

	2017 RMB'000	2016 RMB'000
Short-term debentures and notes	3,000,000	11,000,000

The details of the unsecured short-term debentures and notes issued and outstanding as at 31 December 2016 and 2017 are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Interest rate	Date of maturity
Short-term debentures	11 April 2016	1,000,000	3.95%	7 January 2017
Short-term debentures	12 April 2016	1,000,000	3.95%	9 January 2017
Short-term debentures	14 January 2016	1,000,000	3.36%	18 January 2017
Short-term debentures	18 January 2016	1,000,000	3.42%	19 January 2017
Short-term debentures	1 June 2016	1,000,000	4.24%	27 February 2017
Short-term debentures	7 June 2016	1,000,000	4.10%	5 March 2017
Short-term debentures	1 September 2016	1,000,000	3.05%	2 September 2017
Short-term debentures	8 September 2016	1,000,000	3.00%	12 September 2017
Short-term debentures	19 September 2016	1,000,000	3.07%	21 September 2017
Short-term debentures	15 November 2016	1,000,000	3.48%	17 November 2017
Short-term debentures	24 November 2016	1,000,000	3.52%	22 August 2017
Short-term debentures	3 January 2017	1,000,000	4.42%	5 January 2018
Short-term debentures	16 February 2017	1,000,000	4.46%	17 February 2018
Short-term debentures	22 February 2017	1,000,000	4.50%	23 February 2018

The short-term debentures and notes were issued to various independent third parties according to the approvals issued by National Association of Financial Market Institutional Investors (“NAFMII”). Interest is payable annually.

### 34. MEDIUM-TERM DEBENTURES AND BONDS

	2017 RMB'000	2016 RMB'000
Medium-term debentures and bonds – due within one year	7,196,185	731,664
Medium-term debentures and bonds – due after one year	36,271,871	39,720,060
	<b>43,468,056</b>	<b>40,451,724</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 34. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

The details of the unsecured medium-term debentures and bonds issued and outstanding as at 31 December 2016 and 2017 are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Nominal interest rate	Effective interest rate	Date of maturity
<b>Unlisted</b>					
Medium-term debentures A	25 January 2013	1,500,000	6.30%	6.67%	25 January 2018
Medium-term debentures B	10 April 2013	1,500,000	5.80%	6.12%	10 April 2018
Medium-term debentures C	22 April 2015	1,500,000	5.60%	5.94%	22 April 2018
Medium-term debentures D	9 May 2013	1,500,000	6.00%	6.32%	9 May 2018
Medium-term debentures E	14 May 2015	1,200,000	5.20%	5.54%	14 May 2018
Medium-term debentures F	14 October 2015	1,000,000	5.50%	5.86%	14 October 2020
Medium-term debentures G	15 December 2015	500,000	5.20%	5.88%	15 December 2020
Medium-term debentures H	25 October 2016	1,000,000	3.87%	4.21%	16 October 2021
Medium-term debentures I	3 November 2016	2,000,000	3.84%	4.18%	4 November 2021
Medium-term debentures J	5 January 2017	1,000,000	5.20%	5.55%	6 January 2022
Medium-term debentures K	10 January 2017	1,000,000	5.20%	5.55%	11 January 2022
Medium-term debentures L	17 January 2017	1,000,000	5.20%	5.55%	19 January 2022
<b>Listed</b>					
Enterprise bonds A	3 March 2014	1,200,000	8.69%	8.91%	3 March 2021
Enterprise bonds B	21 August 2014	1,100,000	7.45%	7.88%	21 August 2021
Enterprise bonds C	26 October 2015	1,000,000	5.26%	5.44%	26 October 2022
Enterprise bonds D	14 January 2016	2,000,000	4.10%	4.33%	14 January 2021
Enterprise bonds E	14 January 2016	1,000,000	4.88%	5.11%	14 January 2021
Enterprise bonds F	27 January 2016	1,800,000	4.50%	4.73%	27 January 2021
Enterprise bonds G	24 February 2016	1,200,000	4.04%	4.27%	24 February 2021
Enterprise bonds H	10 March 2016	3,500,000	4.27%	4.50%	10 March 2021
Enterprise bonds I	10 March 2016	500,000	4.83%	5.06%	10 March 2021
Enterprise bonds J	22 March 2016	2,000,000	4.20%	4.43%	22 March 2021
Enterprise bonds K	17 October 2016	7,800,000	4.00%	4.16%	17 October 2023
Private placement enterprise bond A	2 June 2016	3,000,000	6.05%	6.50%	2 June 2019
Private placement enterprise bond B	15 July 2015	3,000,000	6.48%	6.75%	15 July 2021

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 34. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

Debentures A, B, C, D, E, F, G, H, I, J, K and L were issued to various independent third parties according to the approvals issued by NAFMII and enterprise bonds A, B and C were issued according to the approvals issued by National Development and Reform Commission and listed on Shanghai Stock Exchange while enterprise bond D, E, F, G, H, I, J, K, private placement enterprise bond A and B were issued under the approval of China Securities Regulatory Commission.

According to the terms and conditions of private placement enterprise bonds A, the interest rate is 6.05% per annum for 2 years, up to 2 June 2018. At the end of the second year, on 2 June 2018, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the private placement enterprise bonds from a range of -300 to 300 basis points (both figures inclusive), and keep the new interest rate for the last year.

According to the terms and conditions of private placement enterprise bonds B, the interest rate is 6.48% per annum for 3 years, up to 14 July 2019. At the end of the third year, on 14 July 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the private placement enterprise bonds from a range of -300 to 300 basis points (both figures inclusive), and keep the new interest rate for the last year.

According to the terms and conditions of enterprise bonds A, the interest rate of the enterprise bonds is 8.69% per annum for the five years, up to 3 March 2019. At the end of the fifth year, on 3 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100 basis points (both figures inclusive).

According to the terms and conditions of enterprise bonds B, the interest rate of the enterprise bonds is 7.45% per annum for the three years, up to 21 August 2017. At the end of the third year and fifth year, on 21 August 2017 and 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100 basis points (both figures inclusive).

According to the terms and conditions of enterprise bonds C, the interest rate of the enterprise bonds is 5.26% per annum for the four years, up to 26 October 2019. At the end of the fourth year, on 26 October 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100 basis points (both figures inclusive).

Enterprise bonds D and E are different categories of the same tranche. The interest rate of the enterprise bonds D is 4.10% per annum for the 3 years, up to 14 January 2019. At the end of the third year, on 14 January 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds. The interest rate of the enterprise bonds E is 4.88% per annum for the five years, up to 14 January 2021, with no right to redeem the bonds or adjust the interest rate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 34. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

According to the terms and conditions of enterprise bonds F, the interest rate of the enterprise bonds is 4.50% per annum for the 3 years, up to 27 January 2019. At the end of the third year, on 27 January 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

According to the terms and conditions of enterprise bonds G, the interest rate of the enterprise bonds is 4.04% per annum for the 3 years, up to 24 February 2019. At the end of the third year, on 24 February 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

Enterprise bonds H and I are different categories of the same tranche, the interest rate of the enterprise bonds H is 4.27% per annum for the 3 years, up to 10 March 2019. At the end of the third year, on 10 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds. The interest rate of the enterprise bonds I is 4.83% per annum for the five years, up to 10 March 2021, with no right to redeem the bonds or adjust the interest rate.

According to the terms and conditions of enterprise bonds J, the interest rate of the enterprise bonds is 4.20% per annum for the 3 years, up to 22 March 2019. At the end of the third year, on 22 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

According to the terms and conditions of enterprise bonds K, the interest rate of the enterprise bonds is 4.00% per annum for the 5 years, up to 17 October 2021. At the end of the fifth year, on 17 October 2021, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

Interest is payable annually. Issue costs are included in the carrying amount of the medium-term debentures and bonds and amortised over the period of the medium-term debentures and bonds using the effective interest method.

The total medium-term debentures and bonds are repayable as follows:

	2017 RMB'000	2016 RMB'000
Within one year	7,196,185	731,664
In the second to fifth year	28,535,271	30,930,159
Over five years	7,736,600	8,789,901
	<b>43,468,056</b>	<b>40,451,724</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 35. GUARANTEED NOTES

	2017	2016
	RMB'000	RMB'000
Current liabilities	1,957,399	2,768,436
Non-current liabilities	–	2,070,436
	<b>1,957,399</b>	<b>4,838,872</b>

On 26 June 2014, the Company issued 7.625% guaranteed notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,461,120,000) (the "2017 Guaranteed Notes") which are guaranteed by certain overseas 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 notes may/will be redeemed 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, if any, to the redemption date (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:

- (i) Applicable premium means with respect to a note at any redemption date, the greater of (i) 100% 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.

On 26 June 2017, the Company has redeemed the 2017 Guaranteed Notes in full at their principal amount together with interest accrued to the maturity date.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 35. GUARANTEED NOTES (Continued)

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.

On 27 October 2014, the Company issued 6.875% guaranteed notes with the aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB1,845,750,000) (the "2018 Guaranteed Notes") which are guaranteed by certain overseas subsidiaries of the Group. The 2018 Guaranteed Notes mature on 3 May 2018. The 2018 Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2018 Guaranteed Notes, at any time or from time to time prior to the maturity date, the notes may/will be redeemed at a redemption price set forth below.

Period	Redemption price
Prior to 3 May 2018	100% of the principal amount, plus the applicable premium as of, plus accrued and unpaid interest, if any, to the redemption date (notes vi & vii)
Prior to 3 May 2018	106.875% of the principal amount, plus accrued and unpaid interest (note viii)
Note ix	101% of the principal amount, plus accrued and unpaid interest
Note x	100% of the principal amount, plus accrued and unpaid interest

Notes:

- (vi) Applicable Premium means with respect to a note at any redemption date, the greater of (i) 100% of the principal amount and (ii) the excess of (A) the present value at such redemption date of the principal amount of the 2018 Guaranteed Notes on 3 May 2018, plus all required remaining scheduled interest payments due on the 2018 Guaranteed Notes through 3 May 2018 (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.
- (vii) At any time prior to 3 May 2018, the Company may at its option redeem 2018 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.
- (viii) At any time prior to 3 May 2018, the Company may redeem up to 35% of 2018 Guaranteed Notes, at a redemption price of 106.875% 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.
- (ix) Upon the occurrence of a change of control, the Company must make an offer to repurchase all 2018 Guaranteed Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.
- (x) In the event the Group are required to pay additional amounts as a result of certain changes in tax law, 2018 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 2018 Guaranteed Notes on date of issuance is stated net of issue expenses totaling US\$4,500,000 (equivalent to approximately RMB27,686,000) and the effective interest rate of the 2018 Guaranteed Notes is 7.37% per annum.

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 36. CONVERTIBLE BONDS

On 28 November 2017, the Company issued convertible bonds (“CBs”) bearing interest of 5.0% per annum, which were due on 28 November 2022 with an aggregate principal amount of US\$320,000,000. The CBs were denominated in US\$ and entitle the holders to convert them into ordinary shares of the Company at a conversion price of HK\$8.16 per share with fixed exchange rate of HK\$7.8212 equal to US\$1.00 at any time on or after 8 January 2018 and thereafter up to the close of business on the tenth day prior to the maturity date or if such bonds shall have been called for redemption by the holders before maturity date, then up to and including the close of business on a date no later than 10 days prior to the date fixed for redemption thereof. Unless previously redeemed, converted, purchased and cancelled, all convertible bonds outstanding on maturity date shall be repaid by the Company at its principal amount outstanding on maturity date plus accrued interest. The Company may, at the option of the holders, on giving not more than 60 days and not less than 30 days prior to the date that is three years from 28 November 2017, redeem the outstanding CBs in whole or in part at 106% of the principal amount and accrued interest to the respective dates fixed for redemption. At the issue date, the CBs were bifurcated into liability and derivative components. The effective interest rate of the liability component is 21.817% per annum.

The movements of the liability and derivatives components of the CBs and the reconciliation of Level 3 fair value measurement during the reporting period are set out below:

	<b>Liability component of CBs RMB'000</b>	<b>Derivatives component of CBs RMB'000</b>	<b>Total RMB'000</b>
As at 1 January 2016, 31 December 2016 and 1 January 2017	–	–	–
Issued during the year	1,118,528	994,560	2,113,088
Transaction costs	(11,685)	–	(11,685)
Changes in fair values	–	18,231	18,231
Effective interest expenses	22,140	–	22,140
Interest paid	(9,690)	–	(9,690)
Exchange translation	(24,068)	(21,131)	(45,199)
At 31 December 2017	<b>1,095,225</b>	<b>991,660</b>	<b>2,086,885</b>

No CBs were converted into ordinary shares of the Company during the year ended 31 December 2017. No redemption, purchase or cancellation by the Company has been made in respect of the CBs during the year ended 31 December 2017. As at 31 December 2017, the principal amount of the CBs that remained outstanding amounted to US\$320,000,000 of which a maximum of 306,713,725 shares may fall to be issued upon their conversions, subject to adjustments provided in the terms of the CBs. Details of the terms of the CBs are set out in announcements of the Company dated 15 August 2017, 2 November 2017 and 28 November 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 36. CONVERTIBLE BONDS (Continued)

At the date of issuance of the CBs and at 31 December 2017, the fair values of the derivatives component was valued by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the derivatives component of convertible bonds were estimated at the date of issue and the end of reporting period, respectively using the Binomial model. The transaction cost attributable to the derivatives component of convertible bonds of approximately RMB10,390,000 was recognised in the consolidated statement of profit or loss. The changes in fair value of the derivatives component of convertible bonds were recognised in the consolidated profit or loss. The inputs into the model were as follows:

	(Date of issue)	
	At 31 December 2017	At 28 November 2017
Share price	<b>HK\$8.75</b>	HK\$8.81
Conversion price	<b>HK\$8.16</b>	HK\$8.16
Expected volatility	<b>48.07%</b>	47.82%
Expected life	<b>4.91 years</b>	5.00 years
Risk free rate	<b>2.20%</b>	2.06%
Expected dividend yield	<b>3.09%</b>	3.06%

### 37. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liabilities), before set off certain deferred tax assets against deferred liabilities of the same taxable entity, for the financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	<b>1,784,856</b>	557,322
Deferred tax liabilities	<b>(505,125)</b>	(578,097)
	<b>1,279,731</b>	(20,775)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 37. DEFERRED TAXATION (Continued)

The deferred tax assets (liabilities) recognised by the Group and the movements thereon during the year are as follows:

	Excess of accounting		Tax losses	Undistributed Income tax facility	Unrealised profits of PRC subsidiaries	Unrealised profit on intra-group sales	Deferred income	Provisions	Fair value change of derivative financial instruments	Fair value increase on non-current assets arising from business combination	Estimated liabilities for employee benefits	Total
	Decelerated tax depreciation	depreciation over tax										
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	-	16,428	110,800	-	(90,698)	104,232	13,123	10,668	-	(75,127)	325	89,751
Acquisition of subsidiaries	-	-	163,003	-	-	-	-	-	-	(278,347)	-	(115,344)
(Charged) credited to profit or loss	-	(16,427)	24,921	-	(143,151)	117,870	17,063	(5,653)	423	9,226	546	4,818
At 31 December 2016 and 1 January 2017	-	1	298,724	-	(233,849)	222,102	30,186	5,015	423	(344,248)	871	(20,775)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	(35,220)	-	(35,220)
Credited (charged) to profit or loss	1,151,816	(1)	(149,257)	82,280	91,588	73,391	39,514	30,214	(423)	16,604	-	1,335,726
At 31 December 2017	1,151,816	-	149,467	82,280	(142,261)	295,493	69,700	35,229	-	(362,864)	871	1,279,731

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,079,587,000 (2016: RMB2,482,527,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB597,868,000 (2016: RMB1,194,896,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses approximately RMB1,481,719,000 (2016: RMB1,287,631,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB1,175,198,000 (2016: RMB1,027,862,000) that will expire within next five years. The remaining unrecognised tax losses of approximately RMB306,521,000 (2016: RMB259,769,000) may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB34,543,020,000 (2016: RMB28,201,112,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 38. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Government grants		
– Current liabilities	15,321	6,106
– Non-current liabilities	263,479	114,668
	<b>278,800</b>	<b>120,774</b>

As at 31 December 2017, the Group received government subsidies of approximately RMB169,977,000 (2016: RMB121,200,000) towards certain environment protection and construction projects. The amount has been treated as deferred income. The amount is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current period of approximately RMB11,951,000 (2016: RMB456,000). As at 31 December 2017, balances of approximately RMB278,800,000 (2016: RMB120,774,000) remain to be amortised.

### 39. ISSUED CAPITAL

	Number of shares		Share Capital	
	2017	2016	2017 US\$	2016 US\$
<b>Authorised:</b>				
Ordinary shares of US\$0.01 each	10,000,000,000	10,000,000,000	100,000,000	100,000,000
	2017	2016	2017 US\$	2016 US\$
<b>Issued and fully paid:</b>				
Ordinary shares of US\$0.01 each	8,057,888,193	7,259,766,023	80,578,882	72,597,660
	Number of shares		Share Capital	
	2017	2016	2017 RMB'000	2016 RMB'000
<b>Issued and fully paid:</b>				
At beginning of the financial year	7,259,766,023	6,368,215,810	474,057	415,834
Issued of new shares (note (a))	–	891,550,213	–	58,223
Issue of shares upon share subscription (note (b))	806,640,670	–	53,454	–
Shares repurchased and cancelled	(8,518,500)	–	(545)	–
At the end of the financial year	8,057,888,193	7,259,766,023	526,966	474,057

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 39. ISSUED CAPITAL (Continued)

Notes:

- (a) On 18 February 2016, the Company completed the rights issue of 891,550,213 rights shares at the subscription price of HK\$4.31 per rights share on the basis of 7 rights shares for every 50 shares held on the record date.
- (b) On 24 November 2017, 806,640,670 ordinary shares of US\$0.01 each were issued and allotted at a price of HK\$6.8 per share, raising a total proceeds of approximately RMB4,667,964,000, net of share issue expense of approximately RMB1,440,000.

The Company does not have any share option scheme.

All shares issued rank pari passu in all respects with all shares then in issue.

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Date of repurchase	No. of ordinary share of US\$0.01 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
8 December 2017	1,845,000	8.20	7.90	14,851,295
11 December 2017	1,973,500	8.45	8.17	16,366,810
12 December 2017	700,000	8.45	8.38	5,882,735
15 December 2017	4,000,000	9.10	8.80	35,882,330

The above shares were all cancelled on 22 December 2017.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### 40. RESERVES

#### (a) Capital reserve

Capital reserve represents (i) the effect of the group reorganisation completed in March 2010 and (ii) deemed capital contribution from its equity holders.

#### (b) Statutory surplus reserve

In accordance with the Articles of Association of all subsidiaries established in the 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 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 40. RESERVES (Continued)

#### (c) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### 41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which comprising the bank borrowings, short-term debentures and notes, medium-term debentures and bonds, guaranteed notes and convertible bonds as disclosed in notes 32, 33, 34, 35 and 36, to the financial statements, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in note 39 to the financial statements, share premium and reserves in the consolidated statement of financial position.

Management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, raise of new capital and share buy-backs as well as the issuance of new debt.

### 42. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2017	2016
	RMB'000	RMB'000
<b>Financial assets</b>		
Financial assets at FVTPL	57	27,678
Available-for-sale investments	6,000	–
Loans and receivables (including cash and cash equivalents)	47,712,776	28,694,383
<b>Financial liabilities</b>		
Financial liabilities at FVTPL	–	1,691
Derivatives component of convertible bonds	991,660	–
Other financial liabilities at amortised cost	100,220,095	93,874,634

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bills receivables, loan and other receivables, restricted bank deposits, cash and cash equivalents, other financial assets, trade and bills payables, other payables and accruals, other financial liabilities, bank borrowings, short-term debentures and notes, medium-term debentures and bonds, guaranteed notes and liability component of convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (c) Market risk

##### (i) Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollar ("US\$")	1,264,644	2,280,035	10,360,550	16,194,497
Hong Kong Dollar ("HK\$")	24,151	32,705	–	273,257
IDR	73,926	397,781	–	69,667

##### *Sensitivity analysis*

The Group is mainly exposed to US\$, HK\$ and IDR.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% change in foreign currency rate.

A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk (Continued)

##### (i) Currency risk (Continued)

###### *Sensitivity analysis (Continued)*

	2017 RMB'000	2016 RMB'000
Effect on post-tax profit:		
US\$ (note 1)	365,531	567,949
HK\$ (note 2)	(1,008)	10,043
IDR (note 3)	(2,772)	(55,628)

###### Notes:

1. This is mainly attributable to the exposure outstanding on US\$ of cash and cash equivalents, trade receivables, prepayments and other receivables, trade and other payables, bank borrowings and guaranteed notes at year end.
2. This is mainly attributable to the exposure outstanding on HK\$ of cash and cash equivalents, prepayments and other receivables, trade and other payables at year end.
3. This is mainly attributable to the exposure outstanding on IDR of cash and cash equivalents, prepayments and other receivables, trade and other payables at year end.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

##### (ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings, liability component of convertible bonds, short-term debentures and notes, medium-term debentures and bonds and guaranteed notes. The Group aims at keeping borrowings at fixed rates.

The cash flow interest rate risk of the Group relates primarily to the restricted bank deposits, bank balances and floating interest rate bank borrowings, and mainly concentrated on the fluctuation of interest rate quoted from the PBOC, LIBOR and HIBOR on the bank borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk (Continued)

##### (ii) Interest rate risk management (Continued)

###### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For floating interest rate bank borrowings, restricted bank deposits and bank balances, the analysis is prepared assuming the amount of liabilities and assets outstanding at the end of each reporting period was outstanding for the whole year. A 25 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant:

	2017 RMB'000	2016 RMB'000
Increase (decrease) in profit for the year:		
As a result of increase in interest rate	(10,574)	(10,699)
As a result of decrease in interest rate	10,574	10,699

This is mainly attributable to the Group's exposure to interest rates on its interest bearing restricted bank deposits and bank balances and variable-rate bank borrowings after adjusting for the estimated effect of capitalisation of borrowing costs.

#### (d) Credit risk

The Group's credit risk is primarily attributable to its loans to associates, trade receivables, bills receivable, loan and other receivables restricted bank deposits and bank balances. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the recognised financial assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

The Group has concentration of credit risk as 19% (31 December 2016: 25%) and 48% (31 December 2016: 62%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk (Continued)

The Group has concentration of credit risk in respect of bank's acceptance bills receivable as the Group's largest bills receivable from bank represented 23% (2016: 10%) of the total bills receivable as at 31 December 2017. In addition, the Group's bills receivable from the top five major banks represented 46% (2016: 37%) of the total bills receivable as at 31 December 2017.

The credit risk on bank balances and restricted bank deposits is limited because such amounts are placed with various banks with good credit ratings. Other than disclosed above, the Group does not have any other significant concentration of credit risk.

#### (e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities as a significant source of liquidity. Other than the cash generated from operating activities, the Group's management is responsible for obtaining funding from other sources, including guaranteed notes, convertible bonds, bank borrowings, short-term debentures and notes, medium-term debentures and bonds and issue of new shares. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived based on the interest rate at the end of each reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (e) Liquidity risk management (Continued)

	On demand or less than 6 months RMB'000	6 to 12 months RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2017</b>							
Fixed-rate bank borrowings	2,840,727	1,490,293	-	-	-	4,331,020	4,249,961
Floating-rate bank borrowings	2,649,255	2,809,104	2,845,205	6,898,760	2,406,047	17,608,371	15,788,305
Short-term debentures and notes	3,013,128	-	-	-	-	3,013,128	3,000,000
Medium-term debentures and bonds	8,201,970	905,940	4,691,691	28,627,804	8,048,745	50,476,150	43,468,056
Trade and bills payables	16,060,100	-	-	-	-	16,060,100	16,060,100
Other payables	14,601,049	-	-	-	-	14,601,049	14,601,049
Guaranteed notes	2,007,956	-	-	-	-	2,007,956	1,957,399
Convertible bonds	52,393	53,261	105,654	2,420,209	-	2,631,517	1,095,225
	49,426,578	5,258,598	7,642,550	37,946,773	10,454,792	110,729,291	100,220,095
<b>Derivatives – gross settlement</b>							
Currency swaps							
– inflow	65,342	-	-	-	-	-	N/A
– outflow	(65,527)	-	-	-	-	-	N/A
	(185)	-	-	-	-	-	57

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (e) Liquidity risk management (Continued)

	On demand or less than 6 months RMB'000	6 to 12 months RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2016</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	999,327	870,961	–	–	–	1,870,288	1,813,745
Floating-rate bank borrowings	3,180,326	10,175,165	3,728,400	949,433	355,143	18,388,467	17,193,968
Short-term debentures and notes	6,230,200	5,161,200	–	–	–	11,391,400	11,000,000
Medium-term debentures and bonds	1,221,560	837,450	9,259,010	29,279,330	9,164,600	49,761,950	40,451,724
Trade and bills payables	7,506,386	–	–	–	–	7,506,386	7,506,386
Other payables	10,615,751	–	–	–	–	10,615,751	10,615,751
Guaranteed notes	2,946,460	69,252	2,150,352	–	–	5,166,064	4,838,872
	32,700,010	17,114,028	15,137,762	30,228,763	9,519,743	104,700,306	93,420,446
<b>Derivatives – net settlement</b>							
Interest rate swaps	954	2,168	6,291	1,864	–	11,277	11,123
Capped forward	3,000	–	–	26,707	–	29,707	8,531
Futures	(1,691)	–	–	–	–	(1,691)	(1,691)
	2,263	2,168	6,291	28,571	–	39,293	17,963
<b>Derivatives – gross settlement</b>							
<b>Currency swaps</b>							
– inflow	55,496	69,370	138,740	–	–	263,606	N/A
– outflow	(54,069)	(67,101)	(132,467)	–	–	(253,637)	N/A
	1,427	2,269	6,273	–	–	9,969	8,024

The amounts included above of floating interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank borrowing which breached a loan covenant and is repayable in accordance with a revised repayment schedule is included in the “6 to 12 months” time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB4,855,900,000. The corresponding aggregate interest amounts of the bank borrowing amounted to approximately RMB199,727,000.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments

##### *Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	31 December 2017			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Financial assets at FVTPL</b>				
Derivative financial assets				
– Foreign currency swap contracts	–	57	–	57
<b>Financial liabilities at FVTPL</b>				
Derivatives component of convertible bonds	–	991,660	–	991,660
		31 December 2016		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial assets at FVTPL</b>				
Derivative financial assets				
– Interest rate swap contracts	–	11,123	–	11,123
– Foreign currency swap contracts	–	8,024	–	8,024
– Capped forward contracts	–	8,531	–	8,531
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities				
– Futures	–	1,691	–	1,691

There were no transfers between levels of fair value hierarchy in the current and prior years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

##### *Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis*

The valuation techniques and inputs used in the fair value measurements of each financial instrument on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		31/12/2017 RMB'000	31/12/2016 RMB'000	
Interest rate swap contracts	Level 2	–	11,123	Discounted cash flows – Based on forward interest rates (from observable forward interest rates at the end of the reporting period and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties
Foreign currency swap contracts	Level 2	57	8,024	Discounted cash flows – Based on forward exchange rates (from observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
Capped forward contracts	Level 2	–	8,531	Discounted cash flows – Based on forward exchange rates (from observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
Futures	Level 2	–	(1,691)	Discounted cash flows – Based on market prices of aluminum (from observable market prices at the end of the reporting period and contract futures prices, discounted at a rate that reflects the credit risk of various counterparties

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

##### *Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)*

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		31/12/2017 RMB'000	31/12/2016 RMB'000	
Redemption option derivative of convertible bonds	Level 3	80,880	–	Binomial option pricing model; Key inputs: risk free rate of 2.20%, effective interest rate of 8.69% and volatility of 48.07%
Conversion option derivative of convertible bonds	Level 3	910,780	–	Binomial option pricing model; Key inputs: risk free rate of 2.20% and effective interest rate of 8.69% and volatility of 48.07%

##### *Fair value measurements and valuation process*

In estimating the fair value of an asset or a liability, the Group 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 chief financial officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports findings to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair values of the assets and liabilities.

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

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, trade receivables, bills receivables, financial assets included in loans and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, bank borrowings – due within one year, short-term debentures and notes and guaranteed notes due within one year approximate to their carrying amounts largely due to the short term maturities of these instruments. Except as detailed in the following table, the directors of the company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

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

	31 December 2017		31 December 2016	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
<b>Financial liabilities</b>				
<b>Listed</b>				
Medium-term bonds due after one year	28,847,057	29,247,217	22,190,757	24,579,485
<b>Unlisted</b>				
Medium-term bonds due after one year	7,424,814	7,259,213	17,529,303	18,652,863
Guaranteed notes – due after one year	–	–	2,070,436	2,098,956
Bank borrowings – due after one year	10,509,118	10,539,336	4,696,770	4,678,081
Liability component of convertible bonds	1,095,225	1,068,286	–	–

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	As at 31 December 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial liabilities at amortised cost:</b>				
Medium-term bonds due after one year – listed	29,247,217	–	–	29,247,217
Medium-term bonds due after one year – unlisted	–	7,259,213	–	7,259,213
Bank borrowings – due after one year	–	10,539,336	–	10,539,336
Liability component of convertible bonds	–	1,068,286	–	1,068,286
	29,247,217	18,866,835	–	48,114,052
	As at 31 December 2016			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial liabilities at amortised cost:</b>				
Medium-term bonds due after one year – listed	24,579,485	–	–	24,579,485
Medium-term bonds due after one year – unlisted	–	18,652,863	–	18,652,863
Guaranteed notes	–	2,098,956	–	2,098,956
Bank borrowings – due after one year	–	4,678,081	–	4,678,081
	24,579,485	25,429,900	–	50,009,385

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 42. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair value of listed medium-term bonds due after one year is included in Level 1 of the fair value hierarchy. The fair value of the financial liabilities included in Level 1 above has been determined using the quoted bid prices in an active market.
- The fair value of unlisted medium-term bonds, guaranteed notes and bank borrowings due after one year and liability component of convertible bonds are included in Level 2 of the fair value hierarchy. The fair values of the financial liabilities included in the Level 2 category above have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 43. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

(a) *Hongchuang*

On 21 April 2017, the Group acquired 28.18% of the equity interest in Hongchuang for a consideration of RMB1,999,618,000. Despite that the Group acquired only 28.18% of the equity interest of Hongchuang, the Group remains the sole substantial shareholder of Hongchuang. This acquisition has been accounted for using the acquisition method. Hongchuang is engaged in aluminum plate and strip manufacture business. Hongchuang was acquired so as to continue the expansion of the Group's aluminum products operations.

<b>Consideration transferred</b>	RMB'000
Cash	1,999,618

**Assets acquired and liabilities recognised at the date of acquisition are as follows:**

	RMB'000
Property, plant and equipment	191,942
Investment properties	156,472
Intangible assets	14,970
Prepaid lease payments	270,348
Available-for-sale investments	6,000
Cash and cash equivalents	531,908
Trade receivables	262,160
Prepayment and other receivables	12,568
Inventories	91,882
Trade payables	(56,558)
Other payables and accruals	(8,892)
Bank borrowings	(100,000)
Deferred tax liabilities	(35,220)
	1,337,580

Acquisition-related costs amounting to approximately RMB1,259,000 have been excluded from the consideration transferred and have been recognised as an expense in the current period, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The non-controlling interest (71.82%) in Hongchuang recognised at the acquisition date was measured by proportionate share of net assets acquired and amounted to approximately RMB960,650,000.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 43. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

(a) *Hongchuang (Continued)*

**Goodwill arising on acquisition:**

	RMB'000
Consideration transferred	1,999,618
Non-controlling interests	960,650
Less: net assets acquired	(1,337,580)
Goodwill arising on acquisition	1,622,688

Goodwill arose in the acquisition of Hongchuang because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Hongchuang. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

**Net cash outflow on acquisition of Hongchuang:**

	RMB'000
Cash consideration paid	1,999,618
Less: cash and cash equivalent balances acquired	(531,908)
Less: deposits paid (note 26)	(899,515)
Net cash outflow arising on acquisition	568,195

Included in the profit for the year is approximately a profit of approximately RMB19,678,000, attributable to the additional business generated by Hongchuang. Revenue for the year includes approximately RMB1,004,079,000 generated from Hongchuang.

Had the acquisition been completed on 1 January 2017, total revenue of the Group for the year would have been approximately RMB93,746,414,000 and profit for the year would have been approximately RMB5,326,585,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Hongchuang been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of property, plant and equipment and investment property and amortisation of intangible assets and prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 43. ACQUISITION OF SUBSIDIARIES (Continued)

#### For the year ended 31 December 2017 (Continued)

##### (a) *Hongchuang (Continued)*

On 17 April 2017, the Group and Hongchuang entered into a termination agreement, pursuant to which the Group terminate the share subscription agreement signed on 5 December 2016 in relation to the subscription of no more than 1,605,136,436 non-public A shares of Loften. In addition, Loften, Binzhou Hengwang and four independent individuals entered into a termination agreement in order to terminate the equity transfer agreement signed on 5 December 2016 in relation to acquisition of the entire equity interest in Shandong Innovative Metal Technology Company Limited, Further details are set out in the announcements of the Company dated 23 December 2016, 27 February 2017 and 31 March 2017.

#### For the year ended 31 December 2016

##### (b) *Beihai Xinhe New Material Co. Ltd (“Beihai Xinhe”)*

On 30 June 2016, the Group acquired 100% of the unquoted share capital of Beihai Xinhe for consideration of RMB2,120,000,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB231,351,000. Beihai Xinhe is engaged in the manufacture and sales of alumina. Beihai Xinhe was acquired so as to continue the expansion of the Group’s aluminum products operations.

<b>Consideration transferred</b>	RMB’000
Cash	2,120,000

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	2016 RMB’000
Property, plant and equipment	4,881,216
Prepaid lease payments	1,049,391
Deferred tax assets	163,003
Cash and banks	3,477
Trade receivables	329,040
Bill receivable	619,750
Prepayment and other receivables	105,273
Inventories	366,499
Trade payables	(39,734)
Other payables	(769,240)
Amount due to the former shareholder (note)	(4,541,679)
Deferred tax liabilities	(278,347)
	<b>1,888,649</b>

Note: The Group paid the amount of RMB4,541,679,000 to the former shareholder on behalf of Beihai Xinhe during the year ended 31 December 2016.

Acquisition-related costs amounting to approximately RMB529,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 43. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2016 (Continued)

(b) *Beihai Xinhe (Continued)*

**Goodwill arising on acquisition:**

	RMB'000
Consideration transferred	2,120,000
Less: net assets acquired	(1,888,649)
Goodwill arising on acquisition	231,351

Goodwill arose in the acquisition of Beihai Xinhe because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Beihai Xinhe. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

**Net cash outflow on acquisition of Beihai Xinhe**

	RMB'000
Cash consideration paid	2,120,000
Less: cash and cash equivalent balances acquired	(3,477)
Net cash outflow arising on acquisition	2,116,523

Included in the profit for the year is approximately a loss of RMB464,919,000, attributable to the additional business generated by Beihai Xinhe. Revenue for the year includes approximately RMB12,934,000 generated from Beihai Xinhe.

Had the acquisition been completed on 1 January 2016, total revenue of the Group for the year would have been RMB61,397,329,000, and profit for the year would have been RMB6,606,653,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 44. DISPOSAL OF A SUBSIDIARY

On 3 October 2016, Shangdong Weiqiao, an indirect wholly-owned subsidiary of the Company, disposed of the entire issued share capital of Binzhou Weiqiao Environment Technology Co., Ltd. (濱州魏橋環保科技有限公司) ("Binzhou Weiqiao"), a company directly wholly-owned by Shangdong Weiqiao, to an independent third party at a cash consideration of RMB5,000,000. Binzhou Weiqiao was inactive during the year.

	RMB'000
Total cash consideration received	5,000
Analysis of assets and liabilities which control was lost:	
Property, plant and equipment	4,316
Cash and cash equivalents	1,881
Trade payables	(178)
Other payables and accruals	(5,580)
Net assets disposed of	439
Gain on disposal of subsidiaries	4,561
Net cash outflow arising on disposal:	
Cash consideration received	5,000
Less: cash and cash equivalents disposed of	(1,881)
	3,119

### 45. PLEDGE OF ASSETS

At the end of each reporting period, certain of the Group's assets were pledged to secure banking facilities and borrowings 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:

	2017	2016
	RMB'000	RMB'000
Restricted bank deposits (note 28)	1,257,025	393,976
Property, plant and equipment (note 16)	9,307,202	–

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 46. OPERATING LEASES

#### The Group as lessee

	2017 RMB'000	2016 RMB'000
Minimum lease payments paid under operating leases for premises	13,550	10,577

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	5,741	7,868
In the second to fifth year inclusive	2,152	7,942
	7,893	15,810

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

#### The Group as lessor

Rental income earned during the year was RMB5,011,000 (2016: nil). The property are expected to generate rental yields of 4.8% (2016: nil) on an ongoing basis. All of the properties held have committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 RMB'000	2016 RMB'000
Within one year	8,654	–
In the second to fifth year inclusive	8,654	–
	17,308	–

### 47. COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment		
– Contracted for but not provided	1,014,242	3,307,392



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 48. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere of the notes to the consolidated financial statements, the Group has the following related parties transactions.

- (a) During the reporting period, the directors of the Company are of the view that the following are related parties of the Group:

Name of party	Relationship
山東魏橋創業集團有限公司 Shandong Weiqiao Chuangye Group Company Limited ("Chuangye Group") (note i)	note ii
濱州魏橋科技工業園有限公司 ("Binzhou Industrial Park") (note i)	Controlled by Chuangye Group
重慶魏橋金融保理有限公司 Chongqing Weiqiao Financial Factoring Co., Ltd. ("Chongqing Weiqiao") (note i)	Controlled by Chuangye Group
山東銘宏紡織科技有限公司 Shandong Ming Hong Textile Technology Co., Ltd. ("Ming Hong Textile") (note i)	Controlled by Chuangye Group
沾化金沙供水有限公司 ("Jinsha Water Supply") (note i)	An associate of Chuangye Group
ABM	An associate of a wholly-owned subsidiary of the Company
WAP	An associate of a wholly-owned subsidiary of the Company
SMB	An associate of a wholly-owned subsidiary of the Company

Notes:

- i. The English names of the above companies are for reference only.
- ii. Mr. Zhang Shiping, the director and the controlling shareholder of the Company, has a significant non-controlling beneficial interest in Chuangye Group, and is also the director of Chuangye Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 48. RELATED PARTY TRANSACTIONS (Continued)

#### (a) (Continued)

During the year, the Group entered into the following transactions with related parties:

	Notes	2017 RMB'000	2016 RMB'000
Purchases of water			
– Jinsha Water Supply	(b)	29,679	24,643
Purchases of bauxite			
– ABM	(a)	2,796,270	1,014,748
Sales of steam			
– Binzhou Industrial Park	(b)	24,310	26,709
– Ming Hong Textile	(b)	1,961	–
Loans to associates			
– WAP	(a)	–	227,760
– SMB	(a)	–	242,794
– ABM	(a)	716,394	–
Factoring of bills receivables			
– Chongqing Weiqiao	(a)	–	232,000
– Chongqing Weiqiao	(b)	1,054,500	–

Notes:

- (a) The related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.
- (b) The related party transactions in respect of (b) above constitute connected transactions and the disclosures required by Chapter 14A of the Listing Rules are provided in the 'Report of the Directors' section to the annual report.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 48. RELATED PARTY TRANSACTIONS (Continued)

#### (a) (Continued)

The following balances were outstanding at the end of the reporting period:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Loans to associates		
WAP	–	519,972
SMB	–	242,794
ABM	<b>716,394</b>	–
Trade payables		
ABM	<b>272,611</b>	110,908
Jinsha Water Supply	<b>1,197</b>	4,165

#### (b) Compensation of key management personnel

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Short term employee benefit	<b>6,875</b>	5,729
Retirement benefits scheme contributions	<b>65</b>	58
	<b>6,940</b>	5,787

Further details of the directors' and chief executive's emoluments are included in note 12 to the consolidated financial statements.

#### (c) Guarantees and security

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

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Chuangye Group	<b>499,000</b>	450,000

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 49. RETIREMENT BENEFIT SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2017, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB153,456,000 (2016: RMB122,926,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

### 50. LITIGATION

In prior years, a lawsuit was filed by a total of 115 engineering staff against Beihai Xinhe in respect of a dispute in the labor service fee between the 115 engineering staff and Beihai Xinhe. Beihai Xinhe had no direct relationship with those individuals but acted as the main contractor for a construction project. In 2016, Beihai Xinhe received a civil order issued by the Zhang Yuan Xian District Court (the "District Court"), which accepted the application by the 115 engineering staff for property attachment prior to lawsuit to freeze Beihai Xinhe's bank accounts in an aggregate amount of approximately RMB15,560,000. In connection with the lawsuit, five of Beihai Xinhe's bank accounts with an aggregate amount of approximately RMB5,564,000 (2016: RMB2,832,000) was frozen. As at the date of this report, the legal proceedings are in progress. No accrual has been recorded by the Group as at 31 December 2017 (2016: nil) based on the opinion provided by the PRC legal counsel acting on behalf of Beihai Xinhe.

### 51. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017 RMB'000	Financing cash flows RMB'000	Acquisition of subsidiaries RMB'000	Finance costs incurred RMB'000	Non-cash changes		Fair value change RMB'000	31 December 2017 RMB'000
					Transaction costs allocated to derivatives component of CBs RMB'000	Foreign exchange movements RMB'000		
Bank borrowings	19,007,713	1,086,719	100,000	-	-	(156,166)	-	20,038,266
Liability component of CBs	-	1,106,843	-	12,450	-	(24,068)	-	1,095,225
Derivatives portion of CBs	-	984,170	-	-	10,390	(21,131)	18,231	991,660
Short-term debentures and notes	11,000,000	(8,015,864)	-	15,864	-	-	-	3,000,000
Medium-term debentures and bonds	40,451,724	2,998,481	-	17,851	-	-	-	43,468,056
Guaranteed notes	4,838,872	(2,877,945)	-	(3,528)	-	-	-	1,957,399
Interest payable	1,442,886	(3,993,065)	-	4,071,373	-	-	-	1,521,194
	76,741,195	(8,710,661)	100,000	4,114,010	10,390	(201,365)	18,231	72,071,800

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 RMB'000	2016 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		270	349
Investment in subsidiaries		10,720,309	10,446,021
Amount due from subsidiaries	(i)	15,983,017	14,810,574
Other financial assets		–	14,631
		<b>26,703,596</b>	<b>25,271,575</b>
<b>Current assets</b>			
Prepayment and other receivables		4,495	453,637
Amount due from subsidiaries	(i)	424,723	–
Other financial assets		57	6,211
Cash and cash equivalents		118,334	948,311
		<b>547,609</b>	<b>1,408,159</b>
<b>Current liabilities</b>			
Other payables		3,211,614	36,743
Amounts due to subsidiaries	(i)	2,176,191	3,058,165
Bank borrowings – due within one year		196,026	4,781,996
Guaranteed notes		1,957,399	2,768,436
		<b>7,541,230</b>	<b>10,645,340</b>
<b>Net current liabilities</b>		<b>(6,993,621)</b>	<b>(9,237,181)</b>
<b>Total assets less current liabilities</b>		<b>19,709,975</b>	<b>16,034,394</b>
<b>Non-current liabilities</b>			
Bank borrowings – due after one year		2,356,713	–
Convertible bonds		1,095,225	–
Derivative component of convertible bonds		991,660	–
Guaranteed notes		–	2,070,436
		<b>4,443,598</b>	<b>2,070,436</b>
<b>Net assets</b>		<b>15,266,377</b>	<b>13,963,958</b>
<b>Capital and reserves</b>			
Share capital		526,966	474,057
Reserves	(ii)	14,739,411	13,489,901
<b>Total equity</b>		<b>15,266,377</b>	<b>13,963,958</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

- (i) The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand
- (ii) Movement in reserves

	Share premium RMB'000	Share reserve* RMB'000	Retained earnings (accumulated losses) RMB'000	Total RMB'000
At 1 January 2016	7,241,883	3,193,854	678,429	11,114,166
Profit and total comprehensive income for the year	–	–	155,180	155,180
Shares issued	3,163,917	–	–	3,163,917
Shares issue expenses	(12,657)	–	–	(12,657)
Dividend recognised as distribution	–	–	(930,705)	(930,705)
At 31 December 2016 and 1 January 2017	<b>10,393,143</b>	<b>3,193,854</b>	<b>(97,096)</b>	<b>13,489,901</b>
Profit and total comprehensive income for the year	–	–	(99,982)	(99,982)
Shares issued	4,615,950	–	–	4,615,950
Shares issue expenses	(1,440)	–	–	(1,440)
Final 2016 dividend declared	–	–	(1,840,322)	(1,840,322)
Special 2016 dividend declared	–	–	(1,363,201)	(1,363,201)
Share repurchase and cancelled	(61,495)	–	–	(61,495)
At 31 December 2017	<b>14,946,158</b>	<b>3,193,854</b>	<b>(3,400,601)</b>	<b>14,739,411</b>

\* Share reserve represented capitalisation of amount due to a related party in prior year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 53. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Group		Principal activities
				Directly		Indirectly		2017	2016	
				2017	2016	2017	2016	2017	2016	
				%	%	%	%	%	%	
China Hongqiao Investment Limited	British Virgin Islands ("BVI")	Ordinary Shares	US\$200	100	100	-	-	100	100	Investment holding
Hongqiao Investment (Hong Kong) Limited ("Hongqiao Investment")	Hong Kong	Ordinary Shares	HK\$10,100	-	-	100	100	100	100	Investment holding
PT Well	Jakarta, Indonesia	Ordinary Shares	IDR2,334,000,000,000	61	61	-	-	61	61	Manufacture and sale of alumina
Hongqiao International Trading Limited	Hong Kong	Ordinary Shares	HK\$10,000,000	-	-	100	100	100	100	Trading of bauxite
Shandong Hongqiao	PRC	Ordinary Shares	US\$1,533,120,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
鄒平縣宏利熱電有限公司 Zouping Hongli Thermal Power Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB1,817,065,373/ RMB3,700,000,000	-	-	100	100	100	100	Production and sale of electricity
鄒平縣宏茂新材料科技有限公司 Zhouping Hongmao New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB1,500,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
鄒平縣宏正新材料科技有限公司 Zhouping Hongzheng New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB700,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
山東魏橋鋁電有限公司 Shandong Weiqiao Aluminum & Power Co., Ltd. ("Shandong Weiqiao")*	PRC	Ordinary Shares	RMB13,000,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
鄒平縣宏旭熱電有限公司 Zouping Hongxu Power Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB8,200,000,000	-	-	100	100	100	100	Production and sale of electricity
鄒平縣匯聚新材料科技有限公司 Zouping Huiju New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB459,293,189/ RMB500,000,000	-	-	100	100	100	100	Research and development, sale of bauxite, manufacture and sale of aluminum products

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 53. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Group		Principal activities
				Directly		Indirectly		2017	2016	
				2017	2016	2017	2016			
鄒平縣匯才新材料科技有限公司 Zouping Huicai New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB3,700,000,000	-	-	100	100	100	100	Research and development, sale of bauxite, manufacture and sale of aluminum products
鄒平縣匯盛新材料科技有限公司 Zouping Huisheng New Material Technology Co., Ltd. (note i)	PRC	Ordinary Shares	RMB5,900,000,000	-	-	100	100	100	100	Research and development, sale of bauxite, manufacture and sale of aluminum products
鄒平縣匯茂新材料科技有限公司 Zouping Huimao New Material Technology Co., Ltd. (note i)	PRC	Ordinary Shares	RMB5,500,000,000	-	-	100	100	100	100	Research and development, sale of bauxite, manufacture and sale of aluminum products
惠民縣匯宏新材料有限公司 Huimin Huihong New Aluminum *	PRC	Ordinary Shares	RMB5,000,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
Zhanhua Huihong	PRC	Ordinary Shares	RMB3,000,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
陽信縣匯宏新材料有限公司 Yangxin Country New Aluminum Profiles Co., Ltd.*	PRC	Ordinary Shares	RMB1,000,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
濱州北海匯宏新材料有限公司 Binzhou Beihai New Aluminum Profiles Co., Ltd. *	PRC	Ordinary Shares	RMB3,500,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
濱州市宏諾新材料有限公司 (formerly known as 濱州市濱北新材料有限公司) (Binzhou Hongnuo New Material Co. Ltd. ("Binzhou Hongnuo")) *	PRC	Ordinary Shares	RMB1,500,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
山東宏橋融資租賃有限公司 Shandong Hongqiao Financial Leasing Co., Ltd. ("Hongqiao Financial Leasing")*	PRC	Ordinary Shares	US\$100,000,000/ US\$200,000,000	-	-	100	100	100	100	Financial leasing



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 53. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Group		Principal activities
				Directly		Indirectly		2017	2016	
				2017	2016	2017	2016			
山東宏帆實業有限公司 Shandong Hongfan Industrial Co., Ltd.*	PRC	Ordinary Shares	RMB1,000,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
濱州宏展鋁業科技有限公司 Binzhou Hongzhan Aluminum Technology Co., Ltd.*	PRC	Ordinary Shares	RMB200,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
鄒平宏發鋁業科技有限公司 Zouping Hongfa Aluminum Technology Co., Ltd.*	PRC	Ordinary Shares	RMB700,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
山東宏濱國際商貿有限公司 Shandong Hongbin-International Business Co., Ltd.*	PRC	Ordinary Shares	RMB30,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
濱州市北海信和新材料有限公司 (formerly known as 濱州北海新材料有限公司) Binzhou Municipal Beihai Xinhe New Material Co., Ltd.*	PRC	Ordinary Shares	RMB2,100,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
Hongchuang* (notes i and ii)	PRC	Ordinary Shares	RMB926,400,000	-	-	28.18	-	28.18	-	Manufacture and sale of aluminum products

\* For identification purpose only.

#### Notes:

i: New subsidiary acquired during the year

ii: This entity is considered to be a subsidiary of the Company despite the Company only indirectly holds 28.18% equity interest therein as the Group holds significantly more voting rights than any other voting right holders or organised group of voting right holders, and the other shareholdings are widely dispersed, so the Group has the control over Hongchuang.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 53. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The following subsidiaries had issued approximately RMB46,468,056,000 (2016: RMB51,451,724,000) of debt securities at the end of the year:

	Total and held by third parties	
	2017	2016
	RMB'000	RMB'000
Shandong Hongqiao	28,777,053	26,786,714
Shandong Weiqiao	17,691,003	24,665,010

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. All these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Sales of aluminum products	The PRC	4	1
Sales of scrap materials	The PRC	1	1
Capital investor	The PRC	1	1
Various trading business	The PRC	1	1
		7	4

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest held by non-controlling interests	Proportion of voting rights held by non-controlling interests	Profit attributable to non-controlling interests RMB'000	Accumulated non-controlling interests RMB'000
<b>2017</b>					
Hongchuang and its subsidiaries	PRC	71.82%	71.82%	14,133	974,783

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 53. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Summarised financial information in respect of the Group's subsidiaries that has non-controlling interests that are material to the Group is set out below. The summarised financial information below represents amounts before intragroup eliminations.

#### Hongchuang and its subsidiaries

	<b>2017</b> <b>RMB'000</b>
Current assets	816,858
Non-current assets	714,471
Current liabilities	(142,278)
Non-current liabilities	(31,793)
Equity attributable to owners of the Company	382,475
Non-controlling interest	974,783
Revenue	1,004,079
Expenses	(984,401)
Profit for the year	19,678
Profit attributable to owners of the Company	5,545
Profit attributable to the non-controlling interest	14,133
Profit for the year	19,678
Other comprehensive income attributable to owners of the Company	–
Other comprehensive income attributable to the non-controlling interest	–
Other comprehensive income for the year	–
Total comprehensive income attributable to owners of the Company	5,545
Total comprehensive income attributable to the non-controlling interest	14,133
Total comprehensive income for the year	19,678
Net cash outflows from operating activities	(85,874)
Net cash inflows from investing activities	329,536
Net cash outflows from financing activities	(163,035)
Net cash inflows	80,627

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

### 54. EVENTS AFTER THE REPORTING PERIOD

- (a) On 15 January 2018, (i) the Company; (ii) Hongqiao Holdings; and (iii) UBS AG Hong Kong Branch, CMB International Capital Limited and CLSA Limited (collectively referred to as the “Placing Agents”) entered into a placing and subscription agreement for a maximum of 650,000,000 ordinary shares owned by Hongqiao Holdings at a price of HK\$9.6 per placing share.

The placing was completed on 18 January 2018 and 650,000,000 ordinary shares owned by Hongqiao Holdings were placed to 6 or more independent third parties, and confirmed by the Placing Agents, none of the placees has become a substantial shareholder of the Company. After completion of the placing, Hongqiao Holding remains as the controlling shareholder of the Company.

The top-up subscription was completed on 23 January 2018 and 650,000,000 ordinary shares have been allotted and issued to Hongqiao Holdings. After completion of the top-up subscription, Hongqiao Holding remains as the controlling shareholder of the Company.

- (b) On 22 January 2018, Shandong Hongqiao, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Weiqiao Chuangye, for the purchase of 55% equity interest in Chongqing Weiqiao, at a cash consideration of RMB approximately RMB284,407,000. The consideration shall be paid by Shandong Hongqiao to Weiqiao Chuangye in cash within fifteen business days after the completion of the acquisition. Upon completion of the acquisition, Chongqing Weiqiao will become a non-wholly-owned subsidiary of the Company and the factoring agreement and transactions contemplated thereunder will cease to constitute continuing connected transactions of the Company under the Listing Rules.

As there is no reasonable basis in which the directors of the Company can estimate the provisional values of the assets and liabilities acquired, the consolidated assets and liabilities information of Weiqiao Chuangye as at the acquisition date are not disclosed in these consolidated financial statements.

- (c) On 7 February 2018, as a result of the declaration of the dividends by the Company, the conversion price of convertible bonds will be adjusted from HK\$8.16 per conversion share to HK\$7.71 per conversion share with effect from 7 February 2018 (the “Adjustment”). Apart from the Adjustment, there is no change in the CB terms and conditions.
- (d) On 5 February 2018, the Group completed an issuance of short-term debentures with a total face value of RMB1 billion at par value of RMB100.00 per unit which will mature in February 2019 for working capital needs. The fixed annual coupon interest rate of these debentures is 6.00%.

On 14 March 2018, the Group completed an issuance of short-term debentures with a total face value of RMB1 billion at par value of RMB100.00 per unit which will mature in March 2019 for working capital needs. The fixed annual coupon interest rate of these debentures is 6.25%.

On 22 March 2018, the Group completed an issuance of short-term debentures with a total face value of RMB1 billion at par value of RMB100.00 per unit which will mature in March 2019 for working capital needs. The fixed annual coupon interest rate of these debentures is 6.20%.

- (e) On 2 March 2018, the Group completed an issuance of medium-term debentures with a total face value of RMB1 billion at par value of RMB100.00 per unit which will mature in March 2021 for working capital needs. The fixed annual coupon interest rate of these debentures is 7.50%.

### 55. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group returned certain construction materials included in construction in progress under property, plant and equipment of approximately RMB3,955,477,000 to a supplier in which the amount will be used to offset against future purchase with that supplier.

# Independent Auditor's Report



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

**TO THE SHAREHOLDERS OF CHINA HONGQIAO GROUP LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Hongqiao Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 144, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report (Continued)

### COMPLIANCE OF COVENANTS RELATED TO DEBT FINANCING

Refer to note 29 to the consolidated financial statements.

#### The key audit matter

The Group had significant amount of debts including bank borrowings, bonds, debentures and guaranteed notes.

We have identified compliance of financial covenants as a key audit matter because despite that the Group has been making profits over the years and has a strong financial position, the Group's audited accounts for the year ended 31 December 2016 have not been issued and its shares have been suspended from trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since March 2017. It will lead to the breach of covenants other than financial covenants including but not limited to reporting requirements, market capitalisation matters, etc. Such circumstances may lead to the reclassification of debts at the end of the reporting period. It may further affect the Group's ability to continue as a going concern when certain long-term debts become repayable on demand or within a year from the end of the reporting period.

#### How the matter was addressed in our audit

We have obtained and reviewed all the facilities letters, loan agreements and other debt documents.

We have obtained and reviewed the waivers or extensions obtained by the Group for debts that will breach relevant covenants.

We have also obtained and reviewed the cash flow forecast prepared by the management to support the Group's ability to continue as a going concern. We then challenged the reasonableness of key assumptions based on our knowledge of the business and industry and reconciled input data to supporting evidences including subsequent financial information and cash position of the Group.

### TRANSACTIONS WITH RELATED PARTIES AND DISCLOSURE

Refer to note 44 to the consolidated financial statements.

#### The key audit matter

The Group had significant amount of transactions with related parties in both trade and non-trade nature.

We have identified this as a key audit matter because it is essential to monitor these transactions closely. It is also essential to disclose all these transactions properly in accordance with the requirements of relevant accounting standards and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### How the matter was addressed in our audit

Our procedures were designed to verify and identify material related party relationship through enquiry and searches.

We have also scrutinised the accounting ledgers and bank ledgers to ensure material transactions with related parties are properly reflected in the Group's accounting records.

We have also carried out various analysis and market comparisons to assess the reasonableness of these transactions.

### GOING CONCERN CONSIDERATION

Refer to note 2 to the consolidated financial statements.

#### The key audit matter

As at 31 December 2016, the Group had net current liabilities of approximately RMB873,623,000 as at 31 December 2016. In view of such circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

#### How the matter was addressed in our audit

Our audit procedures included, amongst others, obtaining and reviewing the cash flow forecast prepared by the management, which has taken into account the Group's future capital commitments and debt repayments. We then challenged the reasonableness of key assumptions based on our knowledge of the business and industry and reconciled input data to supporting evidences including subsequent financial information and cash position of the Group.

### OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor, who expressed an unqualified opinion on 11 March 2016.

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Independent Auditor's Report (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



## Independent Auditor's Report (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pang Wai Hang.

### **SHINEWING (HK) CPA Limited**

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

43/F., Lee Garden One,

33 Hysan Avenue, Causeway Bay, Hong Kong

27 October 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
Revenue	7	61,395,578	44,109,934
Cost of sales		(47,199,245)	(35,081,530)
Gross profit		14,196,333	9,028,404
Other income and gains	9	1,019,222	744,676
Selling and distribution expenses		(164,269)	(88,449)
Administrative expenses		(2,080,550)	(878,696)
Other expenses		(20,063)	(42,670)
Finance costs	10	(3,345,896)	(3,217,096)
Changes in fair value of derivatives	25	25,987	(209,932)
Share of profit (loss) of associates	19	129,012	(284)
Gain on disposal of a subsidiary	40	4,561	–
Profit before taxation		9,764,337	5,335,953
Income tax expense	11	(2,948,667)	(1,657,994)
Profit for the year	12	6,815,670	3,677,959
Attributable to:			
Owners of the Company		6,849,829	3,706,512
Non-controlling interests		(34,159)	(28,553)
		6,815,670	3,677,959
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translating foreign operations		144,464	63,700
Share of other comprehensive income of associates		7,231	–
		151,695	63,700
Total comprehensive income for the year, net of income tax		6,967,365	3,741,659
Total comprehensive income (expense) for the year attributable to			
Owners of the Company		6,945,267	3,744,731
Non-controlling interests		22,098	(3,072)
		6,967,365	3,741,659
Earnings per share	16		
– Basic (RMB)		0.96	0.59
– Diluted (RMB)		0.96	0.59

# Consolidated Statement of Financial Position

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	17	86,658,456	69,905,236
Prepaid lease payments	18	3,066,503	1,738,590
Deposits paid for acquisition of property, plant and equipment		1,745,089	1,497,883
Deposits paid for acquisition of land		443,390	–
Deferred tax assets	33	557,322	255,576
Interests in associates	19	944,796	309,744
Goodwill	20	311,769	80,418
Other financial assets	25	14,631	–
		<b>93,741,956</b>	<b>73,787,447</b>
<b>CURRENT ASSETS</b>			
Prepaid lease payments	18	56,152	37,774
Inventories	21	17,143,324	12,235,436
Trade receivables	22	363,314	1,052,939
Bills receivables	23	9,721,942	7,503,961
Prepayments and other receivables	24	8,242,544	2,810,471
Other financial assets	25	13,047	–
Restricted bank deposits	26	396,808	601,417
Cash and cash equivalents	26	12,842,380	8,488,534
		<b>48,779,511</b>	<b>32,730,532</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	27	7,506,386	5,754,305
Other payables and accruals	28	12,603,276	10,261,532
Bank borrowings – due within one year	29	14,310,943	11,911,430
Other borrowing – due within one year	29	–	75,000
Other financial liabilities	25	1,691	–
Income tax payable		724,632	125,845
Short-term debentures and notes	30	11,000,000	14,000,000
Medium-term debentures and bonds – due within one year	31	731,664	–
Guaranteed notes	32	2,768,436	–
Deferred income	34	6,106	–
		<b>49,653,134</b>	<b>42,128,112</b>
<b>NET CURRENT LIABILITIES</b>		<b>(873,623)</b>	<b>(9,397,580)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>92,868,333</b>	<b>64,389,867</b>

## Consolidated Statement of Financial Position (Continued)

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	29	4,696,770	11,465,162
Deferred tax liabilities	33	578,097	165,825
Medium-term debentures and bonds – due after one year	31	39,720,060	11,905,771
Guaranteed notes	32	2,070,436	4,505,961
Deferred income	34	114,668	52,490
		<b>47,180,031</b>	28,095,209
<b>NET ASSETS</b>			
		<b>45,688,302</b>	36,294,658
<b>CAPITAL AND RESERVES</b>			
Share capital	35	474,057	415,834
Reserves	36	44,324,255	35,150,690
		<b>44,798,312</b>	35,566,524
Equity attributable to owners of the Company			
Non-controlling interests		<b>889,990</b>	728,134
<b>TOTAL EQUITY</b>			
		<b>45,688,302</b>	36,294,658

The consolidated financial statements on pages 50 to 52 were approved and authorised for issue by the board of directors on 27 October 2017 and are signed on its behalf by:

\_\_\_\_\_  
**Zhang Shiping**  
*Director*

\_\_\_\_\_  
**Zhang Bo**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

## Attributable to owners of the Company

	Share	Share	Capital	Translation	Statutory	Retained	Non-		
	capital	premium	Reserve	reserve	surplus	earnings	Total	controlling	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016, restated	415,834	7,241,883	793,349	49,015	4,295,611	22,770,832	35,566,524	728,134	36,294,658
Profit (loss) for the year	-	-	-	-	-	6,849,829	6,849,829	(34,159)	6,815,670
<i>Other comprehensive income for the year:</i>									
Exchange differences on translation of financial statements of foreign operations	-	-	-	88,207	-	-	88,207	56,257	144,464
Share of other comprehensive income of associates	-	-	-	7,231	-	-	7,231	-	7,231
Total comprehensive income	-	-	-	95,438	-	6,849,829	6,945,267	22,098	6,967,365
Shares issued (note 35)	58,223	3,163,917	-	-	-	-	3,222,140	-	3,222,140
Share issue expenses	-	(12,657)	-	-	-	-	(12,657)	-	(12,657)
Final 2015 dividend declared	-	-	-	-	-	(930,705)	(930,705)	-	(930,705)
Transfer of reserves	-	-	-	-	851,531	(851,531)	-	-	-
Acquisition of additional interest of a subsidiary (Note i)	-	-	-	-	-	7,743	7,743	(7,743)	-
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	147,501	147,501
At 31 December 2016	474,057	10,393,143	793,349	144,453	5,147,142	27,846,168	44,798,312	889,990	45,688,302

### Note i

On 1 April 2016, the Group injected additional share capital of approximately RMB200,012,000 to PT. Well Harvest Winning Alumina Refinery ("PT Well"), which increased the Group's interest in PT Well from 60% to approximately 61%, resulted in a deemed acquisition of 1% equity interests in PT Well.

## Attributable to owners of the Company

	Share	Share	Capital	Translation	Statutory	Retained	Non-		
	capital	premium	Reserve	reserve	surplus	earnings	Total	controlling	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	403,152	6,154,439	793,349	10,796	3,801,171	20,926,717	32,089,624	344,390	32,434,014
Profit (loss) for the year, restated	-	-	-	-	-	3,706,512	3,706,512	(28,553)	3,677,959
<i>Other comprehensive income for the year:</i>									
Exchange differences on translation of financial statements of foreign operations	-	-	-	38,219	-	-	38,219	25,481	63,700
Total comprehensive income (expense)	-	-	-	38,219	-	3,706,512	3,744,731	(3,072)	3,741,659
Shares issued (note 35)	12,682	1,087,444	-	-	-	-	1,100,126	-	1,100,126
Final 2014 dividend declared	-	-	-	-	-	(1,367,957)	(1,367,957)	-	(1,367,957)
Transfer of reserves	-	-	-	-	494,440	(494,440)	-	-	-
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	386,816	386,816
At 31 December 2015, restated	415,834	7,241,883	793,349	49,015	4,295,611	22,770,832	35,566,524	728,134	36,294,658

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000 (Restated)
<b>OPERATING ACTIVITIES</b>		
Profit before tax	9,764,337	5,335,953
Adjustments for:		
Interest income	(104,628)	(34,685)
Finance costs	3,345,896	3,217,096
Share of (profit) loss of associates	(129,012)	284
Depreciation	5,596,906	4,610,112
Loss (gain) on disposal of property, plant and equipment	8,918	(4,386)
(Gain) loss on fair value changes of derivatives	(25,987)	209,932
Investment gains from derivatives	(18,070)	–
Amortisation of prepaid lease payments	53,038	33,337
Reversal of impairment of inventories	(42,670)	–
Impairment loss recognised in respect of inventories	12,792	42,670
Impairment loss recognised in respect of trade receivables	6,708	–
Impairment loss recognised in respect of other receivables	563	–
Gain on disposal of a subsidiary	(4,561)	–
Amortisation of deferred income	(456)	–
Operating cash flows before movements in working capital	18,463,774	13,410,313
Increase in inventories	(4,519,742)	(1,129,951)
Decrease (increase) in trade receivables	1,011,957	(717,031)
Increase in bills receivables	(1,601,730)	(5,037,778)
Increase in prepayments and other receivables	(516,511)	(456,392)
Increase in restricted bank balance	(2,832)	–
Increase in trade and bills payables	1,704,872	3,317,473
Increase in other payables and accruals	607,440	454,243
Cash generated from operations	15,147,228	9,840,877
Income tax paid	(2,318,189)	(2,071,368)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>12,829,039</b>	<b>7,769,509</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	(20,830,387)	(17,119,993)
Repayment to a former shareholder of a newly acquired subsidiary (note 39)	(4,541,679)	–
Acquisition of a subsidiary (note 39)	(2,116,523)	–
Placement of restricted bank deposits	(1,684,063)	(1,301,062)
Deposits paid for acquisition of a subsidiary (note 24)	(899,515)	–
Addition to prepaid land lease payments and deposits for acquisition of land	(791,473)	(307,055)
Loans to associates	(378,500)	(292,212)
Addition of an associate	(20,024)	–
Disposal of a subsidiary (note 40)	3,119	–
Proceeds from disposal of property, plant and equipment	9,935	7,501
Interest received	40,041	34,685
Receipt of government grants	68,740	52,490
Withdrawal of restricted bank deposits	1,891,504	1,529,434
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(29,248,825)</b>	<b>(17,396,212)</b>

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000 (Restated)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of medium-term debentures and bonds	28,800,000	5,200,000
Proceeds from issuance of short-term debentures and notes	16,000,000	14,000,000
New bank borrowings	15,742,657	20,266,225
Proceeds from issue of shares	3,222,140	–
Contribution from non-controlling shareholders	147,501	386,816
Payment of transaction costs attributable to issue of new shares	(12,657)	–
Payment of transaction costs on issuance of short-term debentures and notes	(62,000)	(62,000)
Repayment of other borrowings	(75,000)	(160,000)
Payment of transaction costs on issue of medium-term debentures and notes	(311,345)	(65,800)
Dividends paid to the owners of the Company	(930,705)	(1,367,957)
Interest paid	(2,820,045)	(2,242,680)
Repayment of short-term debentures and notes	(19,000,000)	(7,000,000)
Repayment of bank borrowings	(20,111,536)	(16,981,746)
Repayment of medium-term debentures and bonds	–	(1,500,000)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>20,589,010</b>	<b>10,472,858</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,169,224</b>	<b>846,155</b>
Effect of changes in foreign exchange rates	184,622	(33,956)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>8,488,534</b>	<b>7,676,335</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b> represented by bank balances and cash	<b>12,842,380</b>	<b>8,488,534</b>
<b>Analysis of Components of Cash and Cash Equivalents:</b>		
Cash and bank balances	12,827,380	8,447,534
Non-pledged time deposits with original maturity of less than three months when acquired	15,000	41,000
Cash and cash equivalents as stated in the consolidated statement of financial position	<b>12,842,380</b>	<b>8,488,534</b>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<b>12,842,380</b>	<b>8,488,534</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies Law of Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and ultimate holding company is China Hongqiao Holdings Limited (“Hongqiao Holdings”), a company incorporated in the British Virgin Islands (“BVI”). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company, the principal activities of its subsidiaries (together with the Company, referred to as the “Group”) are set out in note 48.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its PRC subsidiaries. Other than those subsidiaries established in the People’s Republic of China (the “PRC”), the functional currencies of the subsidiary established in Indonesia is denoted in Indonesia Rupiah (“IDR”).

## 2. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given consideration of the Group in light of the Group’s net current liabilities of approximately RMB873,623,000 as at 31 December 2016. The directors of the Company, based on the Group’s available cash flow forecast projections, considered that the Group will have sufficient working capital to meet its financial obligations that will be falling due in the foreseeable future. The followings were considered by the directors:

- (i) As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB12,842,380,000;
- (ii) The Group is actively negotiating with banks for the renewal of its short-term borrowings as necessary when they fall due in the foreseeable future. The Group did not encounter any significant difficulties in renewing its short-term borrowings in the past and therefore the directors of the Company are of the opinion that all short-term borrowings can be renewed; and
- (iii) In June 2017, the Group entered into a strategic cooperation agreement with a bank in the PRC with available banking facilities of up to RMB20,000,000,000. Up to the date of this report, the Group has signed specific facilities letters with the bank amounted to approximately RMB7,574,800,000 and the Group has utilised approximately RMB5,248,510,000 of such facilities, with remaining approximately RMB2,326,290,000 of undrawn facilities ready to be drawn down when the need arises. Details of which are set out in note 49(g).

After taking into account the Group’s business prospects, internal resources, and the available financing facilities, the directors of the Company are of the opinion that, in the absence of unforeseeable circumstances and subject to the successful securing of the sources of funding set out above, the directors considered that the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of the consolidated financial statements. Accordingly, the consolidated financial statements for the year ended 31 December 2016 have been prepared on a going concern basis.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following amendments to IFRSs and amendments to International Accounting Standards (“IAS(s)”), issued by the International Accounting Standards Board (the “IASB”):

Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the amendments to IFRSs and IASs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 (2014)	Financial Instruments <sup>2</sup>
IFRS 15	Revenue from Contracts with Customers <sup>2</sup>
IFRS 16	Leases <sup>4</sup>
IFRS 17	Insurance Contracts <sup>6</sup>
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration <sup>2</sup>
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments <sup>4</sup>
Amendments to IAS 7	Disclosure Initiative <sup>1</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>2</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle <sup>3</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>5</sup> Effective date not yet been determined.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of IFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), IFRS 9 (2014) requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

### **3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)**

#### **IFRS 9 (2014) Financial Instruments (Continued)**

Key requirements of IFRS 9 (2014) are described below: (Continued)

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have an impact on the Group’s results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. For financial liabilities designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk could be presented in other comprehensive income. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 (2014) until a detailed review has been completed.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- (i) Identify the contract with the customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations; and
- (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of IFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under IFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detail review is completed.

#### IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)**

**IFRS 16 Leases (Continued)**

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB15,810,000 as disclosed in note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

**Amendments to IAS 7 Disclosure Initiative**

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to IAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to IAS 7 will result in additional disclosures on the Group’s financing activities, especially reconciliation between the opening and closing balances for liabilities arising from financing activities will be provided on application.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The application of this Interpretation is not restricted to revenue transactions.

IFRIC Interpretation 22 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the application of IFRIC Interpretation 22 may have impact on the Group's purchase in foreign currencies. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for other financial assets and liabilities that are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Basis of consolidation (Continued)**

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

##### ***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

##### *Changes in the Group's ownership interests in existing subsidiaries (Continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### Business combinations

Businesses combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with IAS 12 Income Taxes;
- assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with IAS 19 Employee Benefits;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.



#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Business combinations (Continued)**

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase. Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is within the scope of IAS 39 is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. During the measurement period (see above), the provisional amounts recognised at the acquisition date are adjusted retrospectively or additional assets or liabilities are recognised as of that date, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

##### **Goodwill**

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill relating to an associate that included in the carrying amount of the investment is set out in "investments in associates" below.

#### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in associates (Continued)

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

#### **Retirement benefits costs and termination benefits**

Payments to defined contribution plans including included state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

#### **Short-term and other long-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

#### Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.



#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### ***Financial assets***

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, other receivables, restricted bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### ***Impairment loss on financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Impairment loss on financial assets (Continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, bills receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or bills receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial liabilities and equity instruments (Continued)*

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the other income and gains line item in profit or loss and excludes any interest paid on the financial liabilities. Fair value is determined in a manner described in note 38.

##### *Other financial liabilities*

Other financial liabilities including bank and other borrowings, trade and bills payables, other payable and accruals, dividend payables, short-term debentures and notes, medium-term debentures and bonds and guarantee notes are subsequently measured at amortised cost, using the effective interest method.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial liabilities and equity instruments (Continued)*

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

##### *Convertible bonds*

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative together with other embedded derivatives is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Financial instruments (Continued)

##### *Derivative financial instruments (Continued)*

##### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

##### *Derecognition*

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Fair value measurement

When measuring fair value for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

### 5. PRIOR YEAR ADJUSTMENTS

In preparing the consolidated financial statements for the year ended 31 December 2016, the Group identified an error in respect of the accounting treatment of certain construction materials purchased from an independent third party during the year ended 31 December 2015. The Group transferred unused construction materials of approximately RMB1,695,322,000 to plant and machinery under property, plant and equipment and commenced depreciation. Prior year adjustments have been made to reclassify the balances from plant and machinery to construction in progress and reverse the related depreciation expenses in the previously issued consolidated financial statements for the year ended 31 December 2015.

The effect of the restatements on the result of the Company by line item is as follows:

	2015 RMB'000
Decrease in costs of sales	(76,961)
Increase in income tax expense	19,240
Increase in profit and total comprehensive income for the year ended 31 December 2015	<u>57,721</u>

The following reconciliations show the effect of restatement on the financial position of the Group at 31 December 2015 and the Group's profit and total comprehensive income for the year ended 31 December 2015.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 5. PRIOR YEAR ADJUSTMENTS (Continued)

	As previously reported RMB'000	Adjustments RMB'000	As restated RMB'000
<b>As at 31 December 2015</b>			
Property, plant and equipment	69,828,275	76,961	69,905,236
Other non-current assets	3,882,211	–	3,882,211
Prepayments and other receivables	2,807,789	2,682	2,810,471
Other current assets	29,920,061	–	29,920,061
Income tax payable	(103,923)	(21,922)	(125,845)
Other current liabilities	(42,002,267)	–	(42,002,267)
Non-current liabilities	(28,095,209)	–	(28,095,209)
Net assets	36,236,937	57,721	36,294,658
<b>Capital and reserve</b>			
Share capital	415,834	–	415,834
Other reserves	8,084,247	–	8,084,247
Statutory reserve	4,292,876	2,735	4,295,611
Retained earnings	22,715,846	54,986	22,770,832
Equity attributable to owners of parent	35,508,803	57,721	35,566,524
Non-controlling interests	728,134	–	728,134
Total equity	36,236,937	57,721	36,294,658
<b>For the year ended 31 December 2015</b>			
Profit and total comprehensive expense for the year	3,683,938	57,721	3,741,659
Basic and diluted earnings per share (RMB)	0.58	0.01	0.59

### 6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### **Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

#### ***Going concern basis***

As disclosed in note 2, although the Group had net current liabilities of approximately RMB873,623,000 as at 31 December 2016, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long term. Details of liquidity risk are disclosed in note 38(e).

#### ***Ownership of the land and buildings***

Despite the Group has paid the full purchase consideration as detailed in notes 17 and 18, formal titles of certain of the Group's rights to the use of the land and buildings were not yet granted from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal title, the directors of Company determine to recognise these lands and buildings on the ground that they expect the legal titles being obtained in the future should have no major difficulties and the Group is in substance controlling these lands and buildings. In the opinion of the directors of Company, the absence of formal title to these lands and buildings does not impair the value of the relevant assets to the Group.

#### ***Withholding tax provision on profit appropriation***

The Group provides for withholding taxes of 10% on certain of its PRC subsidiaries' distributable profits generated from 1 January 2011 onwards in compliance with the PRC Corporate Tax Law. The Group has provided for such withholding taxes on the basis that the Group is expected to appropriate in the foreseeable future the profits which the PRC subsidiaries generate. As at 31 December 2016, the amounts provided for withholding tax was RMB233,849,000 (2015: RMB90,698,000). Further details are given in note 33 to the consolidated financial statements.

#### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### ***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB311,769,000 (2015: RMB80,418,000). Further details are given in note 20 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty (Continued)

##### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2016 was RMB298,724,000 (2015: RMB110,800,000). The amount of unrecognised tax losses at 31 December 2016 was RMB1,287,631,000 (2015: RMB162,131,000). Further details are contained in note 33 to the consolidated financial statements.

##### *PRC Corporate Income Tax ("PRC CIT")*

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expense and tax provision in the period in which the differences realise.

##### *Impairment of property, plant and equipment*

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount. At the end of each reporting period, no property, plant and equipment was impaired based on the impairment assessment performed by management. It is possible that actual outcomes may be different from assumptions, having a material impact on the carrying amount of property, plant and equipment in the period when such estimate is revised.

At 31 December 2016, the directors of the Company are satisfied that there is no indication that property, plant and equipment has suffered an impairment loss. As at 31 December 2016, the carrying amount of property, plant and equipment was approximately RMB86,658,456,000 (2015 (Restated): RMB69,905,236,000) as disclosed in note 17 to the consolidated financial statements.

##### *Estimated allowance on inventories*

The Group's management assesses periodically whether net realisable values of inventories have been higher than their costs. For different types of inventories, it requires the exercise of accounting estimates on selling price, costs of conversion and selling expenses to calculate its net realisable value. It is reasonably possible that outcomes would be significantly affected if there is a significant change in circumstances, including the Group's business and the external environment. As at 31 December 2016, the carrying amount of inventories was approximately RMB17,143,324,000 (2015: RMB12,235,436,000) as disclosed in note 21 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 7. REVENUE

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

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Revenue from sales of aluminum products		
– molten aluminum alloy	<b>53,848,144</b>	40,291,596
– aluminum alloy ingots	<b>5,089,082</b>	1,731,393
– aluminum fabrication	<b>2,412,793</b>	2,031,011
Steam supply income	<b>45,559</b>	55,934
	<b>61,395,578</b>	44,109,934

### 8. SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has only one reportable segment which is manufacture and sales of aluminum products. The Group conducts its principal operation in Mainland China. Management monitors the operating results of its business unit for the purpose of making decisions about resources allocation and performance assessment.

#### Geographic information

Revenue from external customers of the Group are mainly contributable to customers established in the PRC, the place of domicile of the Group's operating entities.

The Group operates principally in the PRC (including Hong Kong) and Indonesia. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	<b>Non-current assets</b>	
	<b>2016</b> <b>RMB'000</b>	2015 RMB'000 (Restated)
PRC	<b>86,606,096</b>	68,948,542
Indonesia	<b>5,801,141</b>	4,291,117
	<b>92,407,237</b>	73,239,659

Note:

Non-current assets excluded financial instruments and deferred tax assets.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 8. SEGMENT INFORMATION (Continued)

#### Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2016 RMB'000	2015 RMB'000
Customer A	27,632,747	15,625,790

### 9. OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Bank interest income	58,642	34,685
Other interest income	45,986	–
Gain from sales of raw materials	71,970	29,555
Gain from sales of scraps materials	184,062	238,530
Gain from sales of slag of carbon anode blocks	500,405	385,233
Reversal of impairment of inventories	42,670	–
Investment gains from derivatives	18,070	–
Amortisation of deferred income (Note 34)	456	–
Value-added tax (“VAT”) income (note)	36,087	–
Gain on disposal of property, plant and equipment	–	4,386
Others	60,874	52,287
	<b>1,019,222</b>	<b>744,676</b>

Note:

Pursuant to the VAT reform, entities engaged in the finance lease business are eligible for refund of VAT that is in excess of 3% actual VAT rate. The amount represented such VAT refund income received by a subsidiary of the Company who is engaged in finance lease business.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expenses on bank borrowings	1,018,423	997,873
Interest expenses on other borrowings	9,482	11,415
Interest expenses on short-term debentures and notes	594,715	578,789
Interest expenses on medium-term debentures and bonds	1,522,945	676,701
Interest expenses on guaranteed notes	360,667	337,227
Interest expenses on convertible bonds	–	46,672
Foreign exchange lost, net	–	999,615
	<b>3,506,232</b>	3,648,292
Less: amounts capitalised under construction in progress	<b>(160,336)</b>	(431,196)
	<b>3,345,896</b>	3,217,096

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 4.59% (2015: 5.28%) per annum to expenditure on qualifying assets.

### 11. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000 (Restated)
Current tax:		
– Hong Kong Profit Tax	–	9,307
– PRC Enterprise Income Tax	2,949,785	1,790,408
	<b>2,949,785</b>	1,799,715
Under provision in prior year		
– PRC Enterprise Income Tax	3,700	–
Deferred taxation (note 33)	(4,818)	(141,721)
Total income tax expense for the year	<b>2,948,667</b>	1,657,994

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 11. INCOME TAX EXPENSE (Continued)

Under the prevailing CIT Law and its relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after 1 January 2008 to the Company's Hong Kong subsidiaries are subject to PRC dividend withholding tax of 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty. Deferred taxation has not been provided for in the consolidated financial statements in respect of undistributed profits of relevant PRC subsidiaries in 2008, 2009 and 2010 as the management confirmed that profits generated by the relevant PRC subsidiaries will not be distributed in the foreseeable future. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiaries are subject to PRC dividend withholding tax. The PRC dividend withholding tax rate was change from 5% to 10% due to the applicability of the Sino-Hong Kong tax treaty during the year ended 31 December 2015. An amount of approximately RMB143,151,000 (2015: RMB90,698,000) is recognised in respect of the PRC subsidiaries' undistributed profits generated in the current year.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Profit before taxation	9,764,337	5,335,953
Tax at the statutory tax rate of 25%	2,441,084	1,333,988
Tax effect of expenses not deductible for tax purpose	29,669	64,014
Tax effect of tax losses not recognised	265,600	20,204
Utilisation of tax losses previously not recognised	(4,336)	(9,602)
Under-provision in respect of prior years	3,700	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	28,898	2,090
Effect of entity not subject to income tax	(1,300)	88,489
Tax effect of share of (profit) loss of associates	(32,253)	71
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	143,151	90,698
Tax effect of distribution of profits due to change of tax rate	–	68,042
Tax effect of withholding tax on offshore interest income	56,302	–
Others	18,152	–
Income tax expense for the year	2,948,667	1,657,994

Details of the deferred taxation are set out in note 33.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 12. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000 (Restated)
Profit for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (note 13)	4,671	4,641
Salaries and allowances (excluding directors' emoluments)	3,417,468	2,927,082
Retirement benefit scheme contributions (excluding directors' emoluments)	82,832	89,680
<b>Total staff costs</b>	<b>3,504,971</b>	<b>3,021,403</b>
Auditor's remuneration	4,000	3,740
Amortisation of prepaid lease payments	53,038	33,337
Cost of inventories recognised as an expense	46,691,077	34,896,756
Depreciation	5,596,906	4,610,112
Foreign exchange losses, net	778,954	999,615
Loss on disposal of property, plant and equipment	8,918	–
Write-down of inventories to net realisable value*	12,792	42,670
Impairment loss recognised in respect of trade receivables*	6,708	–
Impairment loss recognised in respect of other receivables*	563	–

\*The above are included in "Other expenses" in the consolidated statement of profit or loss.

### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 8 (2015: 8) directors and the chief executive were as follows:

For the year ended 31 December 2016

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking	Salaries, allowances and Fees		Pension scheme contributions	Total
	RMB'000	benefit in kinds RMB'000	RMB'000	RMB'000
<b>Executive directors:</b>				
Zhang Shiping ("Mr Zhang")	1,500	97	–	1,597
Zheng Shui Liang	500	74	–	574
Zhang Bo	800	95	8	903
<b>Non-executive directors:</b>				
Yang Congsen	600	89	8	697
Zhang Jinglei	300	–	–	300
<b>Independent non-executive directors:</b>				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
	<b>4,300</b>	<b>355</b>	<b>16</b>	<b>4,671</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

For the year ended 31 December 2015

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking	Fees RMB'000	Salaries, allowances and benefit in kinds RMB'000	Pension scheme contributions RMB'000	Total RMB'000
<b>Executive directors:</b>				
Zhang Shiping ("Mr Zhang")	1,500	93	–	1,593
Zheng Shui Liang	500	70	–	570
Zhang Bo	800	84	8	892
<b>Non-executive directors:</b>				
Yang Congsen	600	79	7	686
Zhang Jinglei	300	–	–	300
<b>Independent non-executive directors:</b>				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
	4,300	326	15	4,641

None of the directors waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

There were no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

Zhang Bo is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to any director as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2016 and 2015.

### 14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2016 and 2015 were all directors and the chief executive of the Company and details of their emoluments are included in note 13 above.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 15. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2015 final dividends – HK15 cents per share	930,705	–
2014 final dividends – HK28 cents per share	–	1,367,957
	<b>930,705</b>	<b>1,367,957</b>

During the current year, a final dividend of HK\$1,082,597,000 (equivalent to approximately RMB930,705,000) at HK15 cents per share based on 7,259,766,023 shares as at 18 February 2016 (2015: HK\$1,725,046,000 (equivalent to approximately RMB1,367,957,000), at HK28 cents per share in respect of the year ended 31 December 2014) was proposed by the directors of the Company and approved by the shareholders in the annual general meeting and paid to the owners of the Company.

Subsequent to the end of the reporting period, a final dividend of HK27 cents per share in respect of the year ended 31 December 2016 (2015: HK15 cents per share) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting (and at any adjournment thereof).

Subsequent to the end of the reporting period, a special dividend of HK20 cents per share in respect of the year ended 31 December 2016 (2015: nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting (and at any adjournment thereof).

### 16. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000 (Restated)
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share	<b>6,849,829</b>	3,706,512
<b>Number of shares</b>	2016 '000	2015 '000
Weighted average number of ordinary shares in issue during the year	<b>7,142,521</b>	6,277,594
Bonus element of rights issue (note)	<b>3,022</b>	22,654
	<b>7,145,543</b>	6,300,248

Note: On 18 February 2016, the Company completed the rights issue of 891,550,213 right shares and accordingly the earnings per share for the year ended 31 December 2015 have been restated to reflect the effect of rights issue.

Diluted earnings per share was the same as the basic earnings per share for both years as there were no dilutive ordinary shares outstanding as at 31 December 2016 and 2015.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicle RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2015	17,256,052	35,750,285	17,249	47,022	10,243,624	63,314,232
Additions (Restated)	19,133	2,276,359	9,211	6,280	17,305,517	19,616,500
Transfer	4,331,565	7,857,871	558	2,327	(12,192,321)	–
Reclassification	(1,922,252)	1,922,252	–	–	–	–
Disposals	–	(4,725)	–	(849)	–	(5,574)
Exchange realignment	728	2,075	236	157	46,151	49,347
At 31 December 2015 and 1 January 2016 (Restated)	19,685,226	47,804,117	27,254	54,937	15,402,971	82,974,505
Additions	363,796	474,951	26,647	3,290	20,266,720	21,135,404
Acquired on acquisition of a subsidiary	2,132,302	1,820,334	2,885	–	929,195	4,884,716
Transfer	12,574,613	15,830,453	3,645	7,413	(28,416,124)	–
Disposals	(659)	(34,270)	–	–	–	(34,929)
Return to supplier	–	–	–	–	(3,955,477)	(3,955,477)
Disposal of a subsidiary	–	(2,104)	–	–	(2,277)	(4,381)
Exchange realignment	902	3,352	473	550	304,264	309,541
At 31 December 2016	34,756,180	65,896,833	60,904	66,190	4,529,272	105,309,379
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2015	1,928,506	6,510,692	5,565	16,614	–	8,461,377
Provided for the year	373,693	4,227,087	4,192	5,140	–	4,610,112
Eliminated on disposal	–	(1,806)	–	(653)	–	(2,459)
Exchange realignment	3	166	46	24	–	239
At 31 December 2015 and 1 January 2016 (Restated)	2,302,202	10,736,139	9,803	21,125	–	13,069,269
Provided for the year	1,250,159	4,321,121	18,669	6,957	–	5,596,906
Eliminated on disposal	(115)	(15,961)	–	–	–	(16,076)
Eliminated on disposal of a subsidiary	–	(65)	–	–	–	(65)
Exchange realignment	94	594	122	79	–	889
At 31 December 2016	3,552,340	15,041,828	28,594	28,161	–	18,650,923
<b>Carrying values</b>						
At 31 December 2016	31,203,840	50,855,005	32,310	38,029	4,529,272	86,658,456
At 31 December 2015	17,383,024	37,067,978	17,451	33,812	15,402,971	69,905,236

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	20-30 years
Plant and machinery	5-20 years
Furniture and fixtures	5-14 years
Motor vehicle	10 years

The buildings are situated in PRC and held under medium lease term.

At 31 December 2015, certain of the Group's buildings with a net carrying amount of approximately RMB326,900,000 (2016: nil) were pledged to secure other borrowings of the Group (note 41).

There are properties with a carrying amount of RMB3,351,666,000 (2015: RMB1,749,435,000) located in the PRC of which the Group is in the process of obtaining the property certificates. In the opinion of the directors of the Company, there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

### 18. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	1,776,364	1,490,633
Addition during the year	348,083	319,068
Acquired on acquisition of a subsidiary	1,049,391	–
Amortisation during the year	(53,038)	(33,337)
Exchange realignment	1,855	–
Carrying amount at 31 December	<b>3,122,655</b>	1,776,364
Analysed for reporting purposes as:		
Current asset	56,152	37,774
Non-current asset	3,066,503	1,738,590
	<b>3,122,655</b>	1,776,364

The amount represents the prepayment of rentals for land use rights in the PRC for a period of 20 to 70 years.

There are prepaid land lease payments with carrying amount of RMB426,536,000 (2015: RMB278,021,000) located in the PRC which the Group is in the process of obtaining the property certificates.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Costs of investments in associates	20,308	284
Disposed during the year	(81)	–
Share of profits and other comprehensive income	161,722	17,248
Elimination of loss shared upon disposal	81	–
	<b>182,030</b>	17,532
Loans to associates	<b>762,766</b>	292,212
	<b>944,796</b>	309,744

The loans to associates are unsecured, interest-free and repaid within 2 years.

The Group's payable balances with the associates are disclosed in note 44 to the consolidated financial statements.

As at 31 December 2016 and 2015, the Group had interests in the following material associates:

Name of entity	Form of entity	Country of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held		Principal activities
					2016	2015	2016	2015	
Asian African Mineral and Logistics Consortium Ltd. ("AAMLC") (note 1)	Incorporated	Guinea	Guinea	Ordinary	–	25%	–	25%	Mineral exploration
Société à Responsabilité Limitée Unipersonnelle ("SMB") (note 2)	Incorporated	Guinea	Guinea	Ordinary	22.5%	25%	22.5%	25%	Mineral exploration
Winning Alliance Ports SA ("WAP") (notes 1 and 2)	Incorporated	Guinea	Guinea	Ordinary	22.5%	35%	22.5%	35%	Port operation
Africa Bauxite Mining Company Ltd. ("ABM")	Incorporated	BVI	BVI/Singapore	Ordinary	25%	25%	25%	25%	Trading of bauxite
中衡協力投資有限公司 ("Zhong Heng")	Established	PRC	PRC	Ordinary	20%	N/A	20%	N/A	Inactive

Note 1: During the current year, AAMLC was disposed at nil consideration during the year. As the Group discontinued to recognise losses of AAMLC in prior years, no gain/loss was resulted.

Through disposal of AAMLC, the Group also disposed its 10% indirect interest in WAP.

Note 2: The Group disposed its 2.5% interest in both WAP and SMB at nil consideration during the current year. As the Group discontinued to recognise losses of both WAP and SMB in prior years, no gain/loss was resulted.

The Group's shareholdings in the associates all comprise equity shares held by a wholly-owned subsidiary of the Company.

The financial years of the above associates are coterminous with that of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES (Continued)

None of the associates are material to the Group. The financial information and carrying amount, in aggregate, of the Group's interests in associates that are not individually material and are accounted for using the equity method are set out below:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
The Group's share of profit	<b>137,243</b>	17,248
The Group's share of other comprehensive income	<b>7,231</b>	–
The Group's share of total comprehensive income	<b>144,474</b>	17,248
Elimination of unrealised profits	<b>(8,231)</b>	(17,532)

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Carrying amount of the Group's interests in immaterial associates	<b>182,030</b>	17,532

The Group has stopped recognising its share of losses of certain associates when applying the equity method. The unrecognised share of those associates, both for the year and cumulatively, are set out below:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Unrecognised share of losses of associates for the year	<b>41,820</b>	16,641

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Accumulated unrecognised share of losses of associates	<b>58,461</b>	16,641

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 20. GOODWILL

	2016 RMB'000	2015 RMB'000
<b>COST</b>		
At beginning of the financial year, as originally stated	80,418	80,418
Arising on acquisition of a subsidiary	231,351	–
At the end of the financial year	311,769	80,418
<b>ACCUMULATED IMPAIRMENT LOSSES</b>		
At beginning and end of the financial year	–	–
<b>CARRYING AMOUNT</b>		
At 31 December	311,769	80,418

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to the following cash generating unit (CGU).

	2016 RMB'000	2015 RMB'000
Manufacture and selling of aluminum products in Beihai, the PRC (Unit A)	231,351	–
Manufacture and selling of aluminum products in Binzhou, the PRC (Unit B)	80,418	80,418
	311,769	80,418

During the year ended 31 December 2016, management of the Group determines that there is no impairment of any of its cash-generating units containing goodwill.

The basis of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

#### Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and pre-tax discount rate of 14.04%. Unit A's cash flows beyond the 3-year period are extrapolated using a zero growth rate. The financial budgets estimated are consistent with the track record of the Group's projections. Senior management believes that this growth rate is justified as it is within the long-term growth rate of the industry. The Group is the pioneer of aluminum manufacturing industry technology which has reduced the cost and time of production, and these industrial products qualify for major products of the Group.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A to exceed the aggregate recoverable amount of Unit A.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 20. GOODWILL (Continued)

#### Unit B

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and a pre-tax discount rate of 14.7% (2015: 11.3%). Unit B's cash flows beyond the 3-year period are extrapolated using a zero growth rate. The financial budgets estimated are consistent with the track record of the Group's projections. Senior management believes that this growth rate is justified as it is within the long-term growth rate of the industry. The Group is the pioneer of aluminum manufacturing industry technology which has reduced the cost and time of production, and these industrial products qualify for major products of the Group.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B to exceed the aggregate recoverable amount of Unit B.

### 21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	7,726,267	7,633,718
Work in progress	7,956,444	4,443,974
Finished goods	1,460,613	157,744
	<b>17,143,324</b>	12,235,436

As 31 December 2016, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB12,792,000 (2015: RMB42,670,000).

During the year, inventories previously provided were sold at profit. As a result, a reversal of provision of approximately RMB42,670,000 (2015: nil) has been recognised and included in other income and gains in the current year.

### 22. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	370,022	1,052,939
Less: allowance for impairment losses	(6,708)	-
	<b>363,314</b>	1,052,939

The Group allows an average credit period of 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 presented based on the date of delivery of goods, which approximates the respective revenue recognition dates, at the end of the reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 22. TRADE RECEIVABLES (Continued)

The Group has a policy of allowing average credit period of 90 days to its trade customers

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Within 3 months	<b>355,508</b>	1,043,484
3-12 months	<b>7,806</b>	9,455
	<b>363,314</b>	1,052,939

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB7,806,000 (2015: RMB9,455,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and they are still considered as recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2015: 120 days).

The aged analysis of trade receivables which are past due but not impaired is set out below:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Neither past due nor impaired	<b>355,508</b>	1,043,484
Less than 1 month past due	<b>1,428</b>	9,455
More than 1 month past due	<b>6,378</b>	–
	<b>363,314</b>	1,052,939

In determining the recoverability of the trade receivables, the Group reassesses the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period.

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 22. TRADE RECEIVABLES (Continued)

Movement in the allowance for impairment for trade receivables:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
At 1 January	–	–
Impairment loss recognized	<b>6,708</b>	–
At 31 December	<b>6,708</b>	–

At 31 December 2016, the Group's trade receivables of approximately RMB6,708,000 (2015: Nil) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that full amount of these receivables is unlikely to be recovered. Consequently full provision for these doubtful debts was recognised. The Group does not hold any collateral over these balances.

### 23. BILLS RECEIVABLES

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Bills receivables	<b>9,721,942</b>	7,503,961

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

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Within 3 months	<b>5,080,553</b>	3,358,968
3 to 6 months	<b>4,632,489</b>	4,144,993
Over 6 months	<b>8,900</b>	–
	<b>9,721,942</b>	7,503,961

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 23. BILLS RECEIVABLE (Continued)

#### TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has retained the significant risks and rewards which include default risks, relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the corresponding trade payables and other payables in the consolidated statement of financial position. Subsequent to the endorsement, the Group did not retain any rights on the use of the endorsed bills, including the sale, transfer or pledge of the endorsed bills to any other third parties. These financial assets and financial liabilities are carried at amortised cost in the consolidated statement of financial position.

	2016 RMB'000	2015 RMB'000
Bills receivable endorsed to suppliers with full recourse (note)		
Carrying amount of transferred assets	6,044,736	5,462,542
Carrying amount of trade payables	(1,029,079)	(2,391,905)
Carrying amount of other payables	(5,015,657)	(3,070,637)
Net position as at 31 December	-	-

Note: The maturity dates of bills receivables have not yet due at the end of the reporting period. As the Group was still exposed to credit risk on these receivables at the end of the reporting period, the cash received from the bills endorsed to the suppliers for which the maturity dates have not yet been due are recognised as current liabilities in the consolidated statement of financial position.

### 24. PREPAYMENTS AND OTHER RECEIVABLES

The balance consists of prepayments and other receivables at cost of:

	2016 RMB'000	2015 RMB'000 (Restated)
Prepayments to suppliers	363,199	502,936
Value-added tax recoverable	2,443,685	2,053,619
CIT refundable	65,721	102,576
Deposits paid for acquisition of a subsidiary (note)	899,515	-
Receivables arising from dealing with futures	118,070	-
Interest receivable	64,587	-
Other deposits	150,000	-
Amounts due from related parties	23,364	-
Amount refundable from a supplier	3,955,477	-
Others	159,487	151,340
	8,243,105	2,810,471
Less: allowance for impairment losses	(561)	-
	8,242,544	2,810,471

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 24. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note: On 16 May 2016, Shandong Hongqiao entered into a Memorandum of Understanding ("MOU") with Mr. Yu Rongqiang ("Mr. Yu") in relation to the proposed acquisition of 261,096,605 shares ("Target Shares") of Loften Environmental Technology Co., Ltd ("Loften"), representing approximately 28.18% equity interest of Loften. Pursuant to the MOU, the consideration of this proposed acquisition shall be not more than RMB900,000,000 and such consideration shall be paid in full at the closing of the proposed acquisition. On 16 May 2016, Shandong Hongqiao paid the deposit in the amount of RMB500,000,000 to an account co-managed by the two parties. On 14 July 2016, Shandong Hongqiao paid remaining deposits in the amount of RMB400,000,000 to the same account co-managed by the two parties, and Mr. Yu's 254,710,000 shares of Loften were pledged to Shandong Hongqiao on the same date. On 29 July 2016, the remaining 6,386,605 of the Target Shares were pledged to Shandong Hongqiao by Mr. Yu. These deposits are retained as payment of the consideration by Shandong Hongqiao for the proposed acquisition. The acquisition was subsequently completed on 21 April 2017.

Movement in the allowance for impairment for other receivables:

	2016 RMB'000	2015 RMB'000
At 1 January	–	–
Impairment loss recognized	563	–
Exchange realignment	(2)	–
At 31 December	561	–

At 31 December 2016, the Group's other receivables of approximately RMB561,000 (2015: nil) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that full amount of these receivables is unlikely to be recovered. Consequently full provision for these doubtful debts was recognised. The Group does not hold any collateral over these balances.

### 25. OTHER FINANCIAL ASSETS (LIABILITIES)

	Current		Non-current	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>Other derivatives</b>				
Interest rate swap	–	–	11,123	–
Foreign currency swap	4,516	–	3,508	–
Capped forward	8,531	–	–	–
Futures	(1,691)	–	–	–
	11,356	–	14,631	–

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 25. OTHER FINANCIAL ASSETS (LIABILITIES) (Continued)

	2016 RMB'000	2015 RMB'000
Amounts shown under non-current assets	14,631	–
Amounts shown under current assets	13,047	–
Amounts shown under current liabilities	(1,691)	–

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
US Dollars ("US\$") 8,000,000 to US\$20,000,000	24 June 2019	From 0.85% per annum to 1-Month USD-LIBOR-BBA
US\$40,000,000 to US\$100,000,000	24 June 2019	From 0.79% per annum to 1-Month USD-LIBOR-BBA
US\$20,000,000	24 June 2019	From 0.86% per annum to USD 1-Month LIBOR

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Sell RMB52,640,000	28 April 2017	RMB6.58:US\$1
Sell RMB65,800,000	28 July 2017	RMB6.58:US\$1
Sell RMB65,200,000	27 April 2018	RMB6.52:US\$1
Sell RMB65,800,000	3 May 2018	RMB6.58:US\$1

Major terms of the capped forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Receive RMB3,000,000/ Right to sell RMB130,400,000/ Sell RMB135,400,000	28 June 2017	Above RMB6.92:US\$1/ Between 6.77 and 6.92/ Below RMB6.92:US\$1
Receive RMB8,000,000/ Right to sell RMB130,500,000/ Sell RMB130,500,000	7 April 2017	Above RMB6.925:US\$1/ Between 6.525 and 6.925/ Below RMB6.525:US\$1

Major terms of the futures contracts are as follows:

Commodities	Price range	Maturity date
Buy Aluminum	RMB12,830 to RMB13,170 per tonne	February 2017 to May 2017

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 26. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Cash and bank balances	<b>12,830,212</b>	8,447,534
Time deposits	<b>408,976</b>	642,417
	<b>13,239,188</b>	9,089,951
Less:		
Restricted bank balance (note 46)	<b>(2,832)</b>	–
Pledged time deposits:		
– pledged for issuance of letter of credit	<b>(265,976)</b>	(423,417)
– pledged for guarantee issued	<b>(128,000)</b>	(178,000)
Cash and cash equivalents	<b>12,842,380</b>	8,488,534

Cash and cash equivalents are principally RMB-denominated deposits placed with banks in the PRC. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Bank balances carry interest at market rates which range from 0.01% to 3.0% (2015: 0.001% to 3.0%) per annum.

As at 31 December 2016, bank balances of approximately RMB2,832,000 (2015: nil) were frozen by the Zhang Yuan Xian District Court. Details are set out in note 46.

Pledged time deposits represents deposits pledged to banks to secure short-term banking facilities granted to the Group and guarantee issued by the Group. The time deposits carry fixed interest rate from 0.05% to 3.30% (2015: 0.05% to 3.30%) per annum.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 27. TRADE AND BILLS PAYABLES

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000 (Restated)
Trade payables to third parties	<b>7,395,478</b>	5,487,860
Trade payables to an associate	<b>110,908</b>	116,445
	<b>7,506,386</b>	5,604,305
Bills payable	-	150,000
	<b>7,506,386</b>	5,754,305

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Within 6 months	<b>7,462,550</b>	5,566,271
6-12 months	<b>31,927</b>	31,936
1-2 years	<b>7,541</b>	3,991
More than 2 years	<b>4,368</b>	2,107
	<b>7,506,386</b>	5,604,305

The average credit period on purchases of goods is six months. The trade payables are non-interest-bearing and are normally settled on a term of to six months. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Bills payable were bills of acceptance with maturity of less than one year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 28. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables on property, plant and equipment	6,151,945	5,764,662
Retention payables	2,832,619	2,391,387
Accrued payroll and welfare	454,188	260,721
Advances from customers	781,768	594,152
Other taxes payables	751,569	268,456
Interest payable	1,442,886	875,997
Others	188,301	106,157
	<b>12,603,276</b>	<b>10,261,532</b>

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

#### (a) Bank borrowings

	2016 RMB'000	2015 RMB'000
<b>Current</b>		
Unsecured bank borrowings (note i)	9,528,947	7,560,718
Unsecured syndicated loans	4,781,996	4,350,712
	<b>14,310,943</b>	<b>11,911,430</b>
<b>Non-current</b>		
Unsecured bank borrowings (note i)	4,696,770	6,234,292
Unsecured syndicated loans	-	5,230,870
	<b>4,696,770</b>	<b>11,465,162</b>
	<b>19,007,713</b>	<b>23,376,592</b>

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2016 RMB'000	2015 RMB'000
Within one year or on demand	14,310,943	11,911,430
In the second year	3,529,985	4,032,671
In the third to fifth years, inclusive	1,166,785	7,432,491
	<b>19,007,713</b>	<b>23,376,592</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

#### (a) Bank borrowings (Continued)

	2016 RMB'000	2015 RMB'000
Carrying amount of bank borrowings that are not repayable on demand or within one year from the end of the reporting period but:		
– repayable according to a revised repayment schedule due to breach of loan covenants (note ii)	4,781,996	–
Carrying amount repayable on demand or within one year	9,528,947	11,911,430
Amounts shown under current liabilities	14,310,943	11,911,430
Amounts shown under non-current liabilities	4,696,770	11,465,162
	<b>19,007,713</b>	<b>23,376,592</b>

The exposure of the Group's fixed-rate bank borrowings and the contractual maturity dates (or reset dates) are as follows:

	2016 RMB'000	2015 RMB'000
Fixed-rate borrowings:		
On demand		
Within one year	1,813,745	3,988,841
In the second year	–	1,783,140
In the third to fifth years, inclusive	–	1,019,996
	<b>1,813,745</b>	<b>6,791,977</b>

In addition, the Group has variable-rate borrowings denominated in RMB at floating rates calculated based on the borrowing rates announced by the People's Bank of China (the "PBOC") or China Foreign Exchange Trading System & National Interbank Funding Center ("CFETS"). Interests on borrowings denominated in US\$ and HK\$ at floating rates are calculated based on London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") respectively.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rate:		
Fixed-rate borrowings	<b>2.00%</b> <b>to 4.35%</b>	1.90% to 6.50%
Variable-rate borrowings	<b>1.14%</b> <b>to 5.89%</b>	1.14% to 6.16%



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

#### (a) Bank borrowings (Continued)

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
US\$	<b>10,932,384</b>	14,094,592

Notes:

- (i) The balance of bank borrowings which are guaranteed by a related party was set out in note 44(c) to the financial statements.
- (ii) Subsequent to the end of the reporting period, in respect of a syndicated loan with a carrying amount of RMB4,781,996,000 as at 31 December 2016, the Group breached certain of the terms of the syndicated loan, which are primarily related to the annual reporting requirements of the Group, which requires the Group to provide its annual audited accounts 120 days from the end of the reporting period.

On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. The Group has successfully obtained extension of the reporting requirements to 180 days and 242 days from the end of the reporting period on 12 April 2017 and 30 June 2017 respectively. However, up to the date this report, the Group is unable to obtain further extension of the reporting requirements, which implies that the syndicated loan have to be fully repaid by the end of 31 December 2017. According to the revised repayment schedule, the Group has to repay 10% of the outstanding sum monthly in July and August 2017 and 20% monthly from September 2017 to December 2017.

As a result, the entire syndicated loan is classified as current liabilities on the consolidated statement of financial position.

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Floating rate		
– expiring within one year	<b>350,000</b>	–
– expiring beyond one year	–	–
Fixed rate		
– expiring within one year	–	13,817
– expiring beyond one year	–	–
	<b>350,000</b>	13,817

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

#### (b) Other borrowings

As of 31 December 2015, the Company's subsidiary, Weiqiao Alumina & Power pledged certain equipment to secure other borrowings of the Group with a carrying amount of RMB75,000,000. During the year ended 31 December 2015, the Group has repaid the other borrowings amounting to RMB160,000,000. The secured other borrowings was lent by RBS Leasing (China) Co., Ltd, an independent third party, for three years with repayment in 12 installments and bearing interest at 6.27% per annum. The remaining RMB75,000,000 was fully repaid during the year.

The borrowings are repayable as follows:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Other borrowings repayable: Within one year or on demand	-	75,000

### 30. SHORT-TERM DEBENTURES AND NOTES

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Short-term debentures and notes	<b>11,000,000</b>	14,000,000

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 30. SHORT-TERM DEBENTURES AND NOTES (Continued)

The details of the unsecured short-term debentures and notes issued during the two years are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Interest rate	Date of maturity
Short-term debentures	6 March 2015	1,000,000	5.72%	5 March 2016
Short-term debentures	9 June 2015	2,000,000	5.00%	5 March 2016
Short-term debentures	9 July 2015	1,000,000	4.80%	4 April 2016
Short-term debentures	16 July 2015	1,000,000	4.40%	15 July 2016
Short-term debentures	22 July 2015	1,000,000	4.18%	17 April 2016
Short-term debentures	30 July 2015	1,000,000	4.25%	25 April 2016
Short-term debentures	7 August 2015	1,000,000	3.95%	3 May 2016
Short-term debentures	18 August 2015	1,000,000	3.90%	17 August 2016
Short-term debentures	21 August 2015	1,000,000	3.79%	21 August 2016
Short-term debentures	9 October 2015	1,000,000	3.72%	9 October 2016
Short-term debentures	11 December 2015	1,000,000	4.10%	11 December 2016
Short-term debentures	23 March 2015	1,000,000	6.80%	23 March 2016
Short-term debentures	10 April 2015	1,000,000	6.60%	10 April 2016
Short-term debentures	11 April 2016	1,000,000	3.95%	7 January 2017
Short-term debentures	12 April 2016	1,000,000	3.95%	9 January 2017
Short-term debentures	14 January 2016	1,000,000	3.36%	18 January 2017
Short-term debentures	18 January 2016	1,000,000	3.42%	19 January 2017
Short-term debentures	1 June 2016	1,000,000	4.24%	27 February 2017
Short-term debentures	7 June 2016	1,000,000	4.10%	5 March 2017
Short-term debentures	1 September 2016	1,000,000	3.05%	2 September 2017
Short-term debentures	8 September 2016	1,000,000	3.00%	12 September 2017
Short-term debentures	19 September 2016	1,000,000	3.07%	21 September 2017
Short-term debentures	15 November 2016	1,000,000	3.48%	17 November 2017
Short-term debentures	24 November 2016	1,000,000	3.52%	22 August 2017

The short-term debentures and notes were issued to various independent third parties according to the approvals issued by National Association of Financial Market Institutional Investors (“NAFMII”). Interest is payable annually.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 31. MEDIUM-TERM DEBENTURES AND BONDS

	2016 RMB'000	2015 RMB'000
Medium-term debentures and bonds-due within one year	731,664	–
Medium-term debentures and bonds-due after one year	39,720,060	11,905,771
	<b>40,451,724</b>	11,905,771

The details of the medium-term debentures and bonds issued are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Nominal interest rate	Effective interest rate	Date of maturity
<b>Unlisted</b>					
Medium-term debentures A	25 January 2013	1,500,000	6.30%	6.67%	25 January 2018
Medium-term debentures B	10 April 2013	1,500,000	5.80%	6.12%	10 April 2018
Medium-term debentures C	22 April 2015	1,500,000	5.60%	5.94%	22 April 2018
Medium-term debentures D	9 May 2013	1,500,000	6.00%	6.32%	9 May 2018
Medium-term debentures E	14 May 2015	1,200,000	5.20%	5.54%	14 May 2018
Medium-term debentures F	14 October 2015	1,000,000	5.50%	5.86%	14 October 2020
Medium-term debentures G	15 December 2015	500,000	5.20%	5.88%	15 December 2020
Medium-term debentures H	25 October 2016	1,000,000	3.87%	4.21%	16 October 2021
Medium-term debentures I	3 November 2016	2,000,000	3.84%	4.18%	4 November 2021
<b>Listed</b>					
Enterprise bonds A	3 March 2014	1,200,000	8.69%	8.91%	3 March 2021
Enterprise bonds B	21 August 2014	1,100,000	7.45%	7.88%	21 August 2021
Enterprise bonds C	26 October 2015	1,000,000	5.26%	5.44%	26 October 2022
Enterprise bonds D	14 January 2016	2,000,000	4.10%	4.33%	14 January 2021
Enterprise bonds E	14 January 2016	1,000,000	4.88%	5.11%	14 January 2021
Enterprise bonds F	27 January 2016	1,800,000	4.50%	4.73%	27 January 2021
Enterprise bonds G	24 February 2016	1,200,000	4.04%	4.27%	24 February 2021
Enterprise bonds H	10 March 2016	3,500,000	4.27%	4.50%	10 March 2021
Enterprise bonds I	10 March 2016	500,000	4.83%	5.06%	10 March 2021
Enterprise bonds J	22 March 2016	2,000,000	4.20%	4.43%	22 March 2021
Enterprise bonds K	17 October 2016	7,800,000	4.00%	4.16%	17 October 2023
Private placement enterprise bond A	2 June 2016	3,000,000	6.05%	6.50%	2 June 2019
Private placement enterprise bond B	15 July 2016	3,000,000	6.48%	6.75%	15 July 2021

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 31. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

Debentures A, B, C, D, E, F, G, H and I were issued to various independent third parties according to the approvals issued by NAFMII and enterprise bonds A, B and C were issued according to the approvals issued by National Development and Reform Commission and listed on Shanghai Stock Exchange while enterprise bond D, E, F, G, H, I, J, K, private placement enterprise bond A and B were issued under the approval of China Securities Regulatory Commission.

According to the terms and conditions of private placement enterprise bonds A, the interest rate is 6.05% per annum for 2 years, up to 2 June 2018. At the end of the second year, on 2 June 2018, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the private placement enterprise bonds from a range of -300 to 300 basis points (both figures inclusive), and keep the new interest rate for the last year.

According to the terms and conditions of private placement enterprise bonds B, the interest rate is 6.48% per annum for 3 years, up to 14 July 2019. At the end of the third year, on 14 July 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the private placement enterprise bonds from a range of -300 to 300 basis points (both figures inclusive), and keep the new interest rate for the last year.

According to the terms and conditions of enterprise bonds A, the interest rate of the enterprise bonds is 8.69% per annum for the five years, up to 3 March 2019. At the end of the fifth year, on 3 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100basis points (both figures inclusive).

According to the terms and conditions of enterprise bonds B, the interest rate of the enterprise bonds is 7.45% per annum for the three years, up to 21 August 2017. At the end of the third year and fifth year, on 21 August 2017and 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100 basis points (both figures inclusive).

According to the terms and conditions of enterprise bonds C, the interest rate of the enterprise bonds is 5.26% per annum for the four years, up to 26 October 2019. At the end of the fourth year, on 26 October 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust upward the interest rate of the enterprise bonds from a range of 1 to 100 basis points (both figures inclusive).

Enterprise bonds D and E are different categories of the same tranche. The interest rate of the enterprise bonds D is 4.10% per annum for the 3 years, up to 14 January 2019. At the end of the third year, on 14 January 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds. The interest rate of the enterprise bonds E is 4.88% per annum for the five years, up to 14 January 2021, with no right to redeem the bonds or adjust the interest rate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 31. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

According to the terms and conditions of enterprise bonds F, the interest rate of the enterprise bonds is 4.50% per annum for the 3 years, up to 27 January 2019. At the end of the third year, on 27 January 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

According to the terms and conditions of enterprise bonds G, the interest rate of the enterprise bonds is 4.04% per annum for the 3 years, up to 24 February 2019. At the end of the third year, on 24 February 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

Enterprise bonds H and I are different categories of the same tranche, the interest rate of the enterprise bonds H is 4.27% per annum for the 3 years, up to 10 March 2019. At the end of the third year, on 10 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds. The interest rate of the enterprise bonds I is 4.83% per annum for the five years, up to 10 March 2021, with no right to redeem the bonds or adjust the interest rate.

According to the terms and conditions of enterprise bonds J, the interest rate of the enterprise bonds is 4.20% per annum for the 3 years, up to 22 March 2019. At the end of the third year, on 22 March 2019, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

According to the terms and conditions of enterprise bonds K, the interest rate of the enterprise bonds is 4.00% per annum for the 5 years, up to 17 October 2021. At the end of the fifth year, on 17 October 2021, the bonds holders have a right to redeem all or part of the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest and the Group has a right to adjust the interest rate of the enterprise bonds.

Interest is payable annually. Issue costs are included in the carrying amount of the medium-term debentures and bonds and amortised over the period of the medium-term debentures and bonds using the effective interest method.

The total medium-term debentures and bonds are repayable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	731,664	—
In the second to fifth year	30,930,159	8,645,494
Over five years	8,789,901	3,260,277
	<b>40,451,724</b>	<b>11,905,771</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 32. GUARANTEED NOTES

	2016 RMB'000	2015 RMB'000
Current liabilities	2,768,436	–
Non-current liabilities	2,070,436	4,505,961
	<b>4,838,872</b>	4,505,961

On 26 June 2014, the Company issued 7.625% guaranteed notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,461,120,000) (the “2017 Guaranteed Notes”) which are guaranteed by certain overseas 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 notes may/will be redeemed 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, if any, to the redemption date (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:

- (i) Applicable premium means with respect to a note at any redemption date, the greater of (i) 100% 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.

On 26 June 2017, the Company has redeemed the 2017 Guaranteed Notes in full at their principal amount together with interest accrued to the maturity date.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 32. GUARANTEED NOTES (Continued)

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.

On 27 October 2014, the Company issued 6.875% guaranteed notes with the aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB1,845,750,000) (the "2018 Guaranteed Notes") which are guaranteed by certain overseas subsidiaries of the Group. The 2018 Guaranteed Notes mature on 3 May 2018. The 2018 Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2018 Guaranteed Notes, at any time or from time to time prior to the maturity date, the notes may/will be redeemed at a redemption price set forth below.

Period	Redemption price
Prior to 3 May 2018	100% of the principal amount, plus the applicable premium as of, plus accrued and unpaid interest, if any, to the redemption date (notes vi & vii)
Prior to 3 May 2018	106.875% of the principal amount, plus accrued and unpaid interest (note viii)
Note ix	101% of the principal amount, plus accrued and unpaid interest
Note x	100% of the principal amount, plus accrued and unpaid interest

Notes:

- (vi) Applicable Premium means with respect to a note at any redemption date, the greater of (i) 100% of the principal amount and (ii) the excess of (A) the present value at such redemption date of the principal amount of the 2018 Guaranteed Notes on 3 May 2018, plus all required remaining scheduled interest payments due on the 2018 Guaranteed Notes through 3 May 2018 (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.
- (vii) At any time prior to 3 May 2018, the Company may at its option redeem 2018 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.
- (viii) At any time prior to 3 May 2018, the Company may redeem up to 35% of 2018 Guaranteed Notes, at a redemption price of 106.875% 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.
- (ix) Upon the occurrence of a change of control, the Company must make an offer to repurchase all 2018 Guaranteed Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.
- (x) In the event the Group are required to pay additional amounts as a result of certain changes in tax law, 2018 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 2018 Guaranteed Notes on date of issuance is stated net of issue expenses totaling US\$4,500,000 (equivalent to approximately RMB27,686,000) and the effective interest rate of the 2018 Guaranteed Notes is 7.37% per annum.

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 33. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liabilities), before set off certain deferred tax assets against deferred liabilities of the same taxable entity, for the financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	557,322	255,576
Deferred tax liabilities	(578,097)	(165,825)
	<b>(20,775)</b>	89,751

The deferred tax assets (liabilities) recognised by the Group and the movements thereon during the year are as follows:

	Excess of accounting depreciation over tax depreciation RMB'000	Tax losses RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Unrealised profit on intra-group sales RMB'000	Deferred income RMB'000	Provisions RMB'000	Fair value change of derivative financial instruments RMB'000	Fair value increase on non-current assets arising from business combination RMB'000	Estimated liabilities for employee benefits RMB'000	Total RMB'000
At 1 January 2015	30,120	-	(68,042)	66,310	-	-	-	(80,418)	60	(51,970)
(Charged) credited to profit or loss	(13,692)	110,800	(22,656)	37,922	13,123	10,668	-	5,291	265	141,721
At 31 December 2015	16,428	110,800	(90,698)	104,232	13,123	10,668	-	(75,127)	325	89,751
Acquisition of subsidiaries		163,003	-	-	-	-	-	(278,347)	-	(115,344)
(Charged) credited to profit or loss	(16,427)	24,921	(143,151)	117,870	17,063	(5,653)	423	9,226	546	4,818
At 31 December 2016	<b>1</b>	<b>298,724</b>	<b>(233,849)</b>	<b>222,102</b>	<b>30,186</b>	<b>5,015</b>	<b>423</b>	<b>(344,248)</b>	<b>871</b>	<b>(20,775)</b>

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,482,527,000 (2015: RMB605,331,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB1,194,896,000 (2015: RMB443,200,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses approximately RMB1,287,631,000 (2015: RMB162,131,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB1,027,862,000 (2015: RMB126,747,000) that will expire within next five years. The remaining unrecognised tax losses of approximately RMB259,769,000 (2015: RMB35,384,000) may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB28,201,112,000 (2015: RMB25,471,117,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 34. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Government grants		
– Current liabilities	6,106	–
– Non-current liabilities	114,668	52,490
	<b>120,774</b>	52,490

As at 31 December 2016, the Group received government subsidies of RMB121,200,000 (2015: RMB52,490,000) towards certain environment protection and construction projects. The amount has been treated as deferred income. The amount is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current period of approximately RMB456,000 (2015: nil). As at 31 December 2016, balances of RMB120,774,000 (2015: RMB52,490,000) remain to be amortised.

### 35. ISSUED CAPITAL

	Number of shares		Share Capital	
	2016	2015	2016 US\$	2015 US\$
Authorised:				
Ordinary shares of US\$0.01 each	10,000,000,000	10,000,000,000	100,000,000	100,000,000
	2016	2015	2016 US\$	2015 US\$
Issued and fully paid:				
Ordinary shares of US\$0.01 each	7,259,766,023	6,368,215,810	72,597,660	63,682,158

	Number of shares		Share Capital	
	2016	2015	2016 RMB'000	2015 RMB'000
<b>Issued and fully paid:</b>				
At beginning of the financial year	6,368,215,810	6,160,880,000	415,834	403,152
Conversion of bonds (note (a))	–	207,335,810	–	12,682
Issued of new shares (note (b))	891,550,213	–	58,223	
At the end of the financial year	<b>7,259,766,023</b>	6,368,215,810	<b>474,057</b>	415,834

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 35. ISSUED CAPITAL (Continued)

Notes:

- (a) Convertible bonds issued in prior years have been fully converted at the conversion price to 207,335,810 shares of the Company during the year ended 31 December 2015. The carrying amount of Convertible Bonds, net of the par value of the shares, of RMB1,087,444,000 has been recognised as share premium.
- (b) On 18 February 2016, the Company completed the rights issue of 891,550,213 rights shares at the subscription price of HK\$4.31 per rights share on the basis of 7 rights shares for every 50 shares held on the record date.

The Company does not have any share option scheme.

All shares issued rank pari passu in all respects with all shares then in issue.

### 36. RESERVES

#### a) Capital reserve

Capital reserve represents (i) the effect of the group reorganisation completed in March 2010 and (ii) deemed capital contribution from its equity holders.

#### b) Statutory surplus reserve

In accordance with the Articles of Association of all subsidiaries established in the 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 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.

#### c) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which comprising the bank borrowings, other borrowings, short-term debentures and notes, medium-term debentures and bonds and guaranteed notes as disclosed in notes 29, 30, 31 and 32, to the financial statements, and cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital as disclosed in note 35 to the financial statements, share premium and reserves in the consolidated statement of financial position.

Management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, raise of new capital and share buy-backs as well as the issuance of new debt.

### 38. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000 (Restated)
<b>Financial assets</b>		
Financial assets at FVTPL	27,678	–
Loans and receivables (including cash and cash equivalents)	29,457,149	18,090,403
	<b>29,484,827</b>	18,090,403
<b>Financial liabilities</b>		
Financial liabilities at FVTPL	1,691	–
Other financial liabilities at amortised cost	93,420,446	68,755,832
	<b>93,422,137</b>	68,755,832

#### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bills receivables, other receivables, restricted bank deposits, cash and cash equivalents, other financial assets, trade and bills payables, other payables and accruals, other financial liabilities, bank borrowings, other borrowings, short-term debentures and bonds, medium-term debentures and bonds and guaranteed notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk

##### (i) Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
United States Dollar ("US\$")	2,280,035	797,788	16,194,497	19,144,625
Hong Kong Dollar ("HK\$")	32,705	63,069	273,257	–
IDR	397,781	3,016	69,667	2,180

##### Sensitivity analysis

The Group is mainly exposed to US\$, HK\$ and IDR.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% change in foreign currency rate.

A positive number below indicates an increase in post-tax profit and other equity where RMB strengthen 5% (2015: 5%) against the relevant currency. For a 5% (2015: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	2016 RMB'000	2015 RMB'000
Effect on post-tax profit:		
US\$ (note 1)	567,949	737,295
HK\$ (note 2)	10,043	(2,660)
IDR (note 3)	(55,628)	(31)

##### Notes:

1. This is mainly attributable to the exposure outstanding on US\$ of interest in associates, cash and cash equivalents, trade receivables, prepayments and other receivables, trade and other payables, bank borrowings and guaranteed notes at year end.
2. This is mainly attributable to the exposure outstanding on HK\$ of cash and cash equivalents, prepayments and other receivables, trade and other payables at year end.
3. This is mainly attributable to the exposure outstanding on IRD of cash and cash equivalents, prepayments and other receivables, trade and other payables at year end.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk (Continued)

##### (i) Currency risk (Continued)

###### *Sensitivity analysis (Continued)*

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

##### (ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings, other borrowings, short-term debentures and notes, medium-term debentures and bonds and guaranteed notes. The Group aims at keeping borrowings at fixed rates.

The cash flow interest rate risk of the Group relates primarily to the restricted bank deposits, bank balances and floating interest rate bank borrowings, and mainly concentrated on the fluctuation of interest rate quoted from the PBOC, LIBOR and HIBOR on the bank borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

###### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For floating interest rate bank borrowings, restricted bank deposits and bank balances, the analysis is prepared assuming the amount of liabilities and assets outstanding at the end of each reporting period was outstanding for the whole year. A 25 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant:

	2016 RMB'000	2015 RMB'000
Increase (decrease) in profit for the year:		
As a result of increase in interest rate	<b>(10,699)</b>	(41,134)
As a result of decrease in interest rate	<b>10,699</b>	41,134

This is mainly attributable to the Group's exposure to interest rates on its interest bearing restricted bank deposits and bank balances and variable-rate bank borrowings after adjusting for the estimated effect of capitalisation of borrowing costs.

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk

The Group's credit risk is primarily attributable to its loans to associates, trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the recognised financial assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

The Group has concentration of credit risk as 25% (31 December 2015: 67%) and 62% (31 December 2015: 92%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group has concentration of credit risk in respect of bank's acceptance bills receivable as the Group's largest bills receivable from bank represented 10% (2015: 12%) of the total bills receivable as at 31 December 2016. In addition, the Group's bills receivable from the top five major banks represented 37% (2015: 36%) of the total bills receivable as at 31 December 2016.

The credit risk on bank balances and deposits is limited because such amounts are placed with various banks with good credit ratings. Other than disclosed above, the Group does not have any other significant concentration of credit risk.

#### (e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities as a significant source of liquidity. Other than the cash generated from operating activities, the Group's management is responsible for obtaining funding from other sources, including guaranteed notes, convertible bonds, bank borrowings, other borrowings, short-term debentures and notes and medium-term debentures and bonds. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived based on the interest rate at the end of each reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (e) Liquidity risk management (Continued)

	On demand or less than 6 months RMB'000	6 to 12 months RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2016</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	999,327	870,961	-	-	-	1,870,288	1,813,745
Floating-rate bank borrowings	3,180,326	10,175,165	3,728,400	949,433	355,143	18,388,467	17,193,968
Short-term debentures and notes	6,230,200	5,161,200	-	-	-	11,391,400	11,000,000
Medium-term debentures and bonds	1,221,560	837,450	9,259,010	29,279,330	9,164,600	49,761,950	40,451,724
Trade and bills payables	7,506,386	-	-	-	-	7,506,386	7,506,386
Other payables	10,615,751	-	-	-	-	10,615,751	10,615,751
Guaranteed notes	2,946,460	69,252	2,150,352	-	-	5,166,064	4,838,872
	<b>32,700,010</b>	<b>17,114,028</b>	<b>15,137,762</b>	<b>30,228,763</b>	<b>9,519,743</b>	<b>104,700,306</b>	<b>93,420,466</b>
<b>Derivatives – net settlement</b>							
Interest rate swaps	954	2,168	6,291	1,864	-	11,277	11,123
Capped forward	3,000	-	-	26,707	-	29,707	8,531
Futures	(1,691)	-	-	-	-	(1,691)	(1,691)
	<b>2,263</b>	<b>2,168</b>	<b>6,291</b>	<b>28,571</b>	<b>-</b>	<b>39,293</b>	<b>17,963</b>
<b>Derivatives – gross settlement</b>							
<b>Currency swaps</b>							
– inflow	55,496	69,370	138,740	-	-	263,606	N/A
– outflow	(54,069)	(67,101)	(132,467)	-	-	(253,637)	N/A
	<b>1,427</b>	<b>2,269</b>	<b>6,273</b>	<b>-</b>	<b>-</b>	<b>9,969</b>	<b>-</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (e) Liquidity risk management (Continued)

	On demand or less than 6 months RMB'000	6 to 12 months RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2015</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	2,822,728	1,367,842	620,136	2,440,988	-	7,251,694	6,791,977
Floating-rate bank borrowings	4,818,502	3,684,777	3,412,536	5,896,695	-	17,812,510	16,584,615
Other borrowings	75,000	-	-	-	-	75,000	75,000
Short-term debentures and notes	9,392,258	5,199,100	-	-	-	14,591,358	14,000,000
Medium-term debentures and bonds	531,180	217,050	748,230	10,081,890	3,591,430	15,169,780	11,905,771
Trade and bills payables	5,754,305	-	-	-	-	5,754,305	5,754,305
Other payables	9,138,203	-	-	-	-	9,138,203	9,138,203
Guaranteed notes	165,993	165,993	2,830,398	2,015,045	-	5,177,429	4,505,961
	32,698,169	10,634,762	7,611,300	20,434,618	3,591,430	74,970,279	68,755,832

The amounts included above of floating interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank borrowing which breached a loan covenant and is repayable in accordance with a revised repayment schedule is included in the "6 to 12 months" time band in the above maturity analysis. As at 31 December 2016 and 2015, the aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB4,855,900,000 and nil respectively. The corresponding aggregate interest amounts of the bank borrowing amounted to approximately RMB199,727,000 and nil respectively.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

##### *Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis*

The valuation techniques and inputs used in the fair value measurements of each financial instrument on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		31/12/2016 RMB'000	31/12/2015 RMB'000	
Interest rate swap contracts	Level 2	11,123	N/A	Discounted cash flows – Based on forward interest rates (from observable forward interest rates at the end of the reporting period and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties)
Foreign currency swap contracts	Level 2	8,024	N/A	Discounted cash flows – Based on forward exchange rates (from observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties)
Capped forward contracts	Level 2	8,531	N/A	Discounted cash flows – Based on forward exchange rates (from observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties)
Futures	Level 2	(1,691)	N/A	Discounted cash flows – Based on market prices of aluminum (from observable market prices at the end of the reporting period and contract futures prices, discounted at a rate that reflects the credit risk of various counterparties)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

##### *Fair value measurements and valuation process*

In estimating the fair value of an asset or a liability, the Group 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 chief financial officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports findings to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair values of the assets and liabilities.

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

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, trade receivables, bills receivables, financial assets included in prepayments and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, bank borrowings – due within one year, other borrowing – due within one year, short-term debentures and notes approximate to their carrying amounts largely due to the short term maturities of these instruments. Except as detailed in the following table, the directors of the company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2016		31 December 2015	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
<b>Financial liabilities</b>				
<b>Listed</b>				
Medium-term bonds due after one year	22,190,757	24,579,485	3,260,277	3,417,138
<b>Unlisted</b>				
Medium-term bonds due after one year	17,529,303	18,652,863	8,645,494	8,973,506
Guaranteed notes	4,838,872	4,977,222	4,505,961	4,689,619
Bank borrowings – due after one year	1,463,770	1,543,346	11,465,162	11,459,941

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 38. FINANCIAL INSTRUMENTS (Continued)

#### (f) Fair value measurements of financial instruments (Continued)

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

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	As at 31 December 2016			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Financial liabilities at amortised cost:</b>				
Medium-term bonds due after one year – listed	24,579,485	–	–	24,579,485
Medium-term bonds due after one year – unlisted	–	18,652,863	–	18,652,863
Guaranteed notes	–	4,977,222	–	4,977,222
Bank borrowings due after one year	–	1,543,346	–	1,543,346
	<b>24,579,485</b>	<b>25,173,431</b>	<b>–</b>	<b>49,752,916</b>

	As at 31 December 2015			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Financial liabilities at amortised cost:</b>				
Medium-term bonds due after one year – listed	3,417,138	–	–	3,417,138
Medium-term bonds due after one year – unlisted	–	8,973,506	–	8,973,506
Guaranteed notes	–	4,649,619	–	4,649,619
Bank borrowings due after one year	–	11,459,941	–	11,459,941
	<b>3,417,138</b>	<b>25,083,066</b>	<b>–</b>	<b>28,500,204</b>

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair value of listed medium-term bonds due after one year is included in Level 1 of the fair value hierarchy. The fair value of the financial liabilities included in Level 1 above has been determined using the quoted bid prices in an active market.
- The fair value of unlisted medium-term bonds, guaranteed notes and bank borrowings due after one year are included in Level 2 of the fair value hierarchy. The fair values of the financial liabilities included in the Level 2 category above have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 39. ACQUISITION OF A SUBSIDIARY

On 30 June 2016, the Group acquired 100% of the unquoted share capital of Binzhou Beihai Xinhe New Material Co., Ltd. ("Beihai Xinhe") for consideration of RMB2,120,000,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB231,351,000. Beihai Xinhe is engaged in the manufacture and sales of alumina. Beihai Xinhe was acquired so as to continue the expansion of the Group's aluminum products operations.

Consideration transferred	RMB'000
Cash	2,120,000

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	2016 RMB'000
Property, plant and equipment	4,881,216
Prepaid lease payments	1,049,391
Deferred tax assets	163,003
Cash and banks	3,477
Trade receivables	329,040
Bill receivable	619,750
Prepayment and other receivables	105,273
Inventories	366,499
Trade payables	(39,734)
Other payables	(769,240)
Amount due to the former shareholder (note)	(4,541,679)
Deferred tax liabilities	(278,347)
	<b>1,888,649</b>

Note: The Group paid the amount of RMB4,541,679,000 to the former shareholder on behalf of Beihai Xinhe during the year ended 31 December 2016.

Acquisition-related costs amounting to approximately RMB529,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 39. ACQUISITION OF A SUBSIDIARY (Continued)

#### Goodwill arising on acquisition:

	RMB'000
Consideration transferred	2,120,000
Less: net assets acquired	(1,888,649)
Goodwill arising on acquisition	<u>231,351</u>

Goodwill arose in the acquisition of Beihai Xinhe because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Beihai Xinhe. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

#### Net cash outflow on acquisition of Beihai Xinhe

	RMB'000
Cash consideration paid	2,120,000
Less: cash and cash equivalent balances acquired	(3,477)
Net cash outflow arising on acquisition	<u>2,116,523</u>

Included in the profit for the year is approximately RMB113,988,000, attributable to the additional business generated by Beihai Xinhe. Revenue for the year includes approximately RMB52,663,000 generated from Beihai Xinhe.

Had the acquisition been completed on 1 January 2016, total revenue of the Group for the year would have been RMB61,397,329,000, and profit for the year would have been RMB6,606,653,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Beihai Xinhe been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of property, plant and equipment and amortisation of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 40. DISPOSAL OF A SUBSIDIARY

On 3 October 2016, Shandong Weiqiao, an indirect wholly-owned subsidiary of the Company, disposed of the entire issued share capital of Binzhou Weiqiao Environment Technology Co., Ltd. (濱州魏橋環保科技有限公司) (“Binzhou Weiqiao”), a company directly wholly-owned by Shandong Weiqiao, to an independent third party at a cash consideration of RMB5,000,000. Binzhou Weiqiao was inactive during the year.

	RMB'000
Total cash consideration received	5,000
Analysis of assets and liabilities which control was lost:	
Property, plant and equipment	4,316
Cash and cash equivalents	1,881
Trade payables	(178)
Other payables and accruals	(5,580)
Net assets disposed of	439
Gain on disposal of subsidiaries	4,561
Net cash inflow arising on disposal:	
Cash consideration received	5,000
Less: cash and cash equivalents disposed of	(1,881)
	3,119

### 41. PLEDGE OF ASSETS

At the end of each reporting period, certain of the Group's assets were pledged to secure banking facilities and other borrowings 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:

	2016 RMB'000	2015 RMB'000
Restricted bank deposits (note 26)	393,976	601,417
Property, plant and equipment (note 17)	-	326,900
	393,976	928,317



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 42. OPERATING LEASES

#### The Group as lessee

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Minimum lease payments paid under operating leases for premises	<b>10,577</b>	5,701

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Within one year	<b>7,868</b>	4,684
In the second to fifth year inclusive	<b>7,942</b>	1,233
	<b>15,810</b>	5,917

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

### 43. COMMITMENTS

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment – Contracted for but not provided	<b>3,307,392</b>	6,374,696

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 44. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere of the notes to the consolidated financial statements, the Group has the following related parties transactions.

- (a) During the Reporting Period, the directors of the Company are of the view that the following are related parties of the Group:

Name of party	Relationship
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
濱州魏橋科技工業園有限公司 ("Binzhou Industrial Park") (note i)	Controlled by Chuangye Group
Chongqing Weiqiao (note i)	Controlled by Chuangye Group
沾化金沙供水有限公司 ("Jinsha Water Supply") (note i)	An associate of Chuangye Group
ABM	An associate of a wholly-owned subsidiary of the Company
WAP	An associate of a wholly-owned subsidiary of the Company

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 44. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- i. The English names of the above companies are for reference only.
- 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, and is also the director of Chuangye Group.

During the year, the Group entered into the following transactions with related parties:

	Notes	2016 RMB'000	2015 RMB'000
Purchases of carbon anode blocks			
– Aluminum Technology	(a)	–	244,292
Purchases of water			
– Jinsha Water Supply	(b)	24,643	5,676
Purchases of bauxite			
– ABM	(a)	1,014,748	179,646
Sales of slag of carbon anode blocks			
– Aluminum Technology	(a)	–	14,847
Sales of steam			
– Binzhou Industrial Park	(b)	26,709	13,592
Loans to associates			
– WAP	(a)	227,760	292,212
– SMB	(a)	242,794	–
Factoring of bills receivables			
–Chongqing Weiqiao	(a)	232,000	–

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 44. RELATED PARTY TRANSACTIONS (Continued)

The following balances were outstanding at the end of the reporting period:

	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
Loans to associates		
WAP	<b>519,972</b>	292,212
SMB	<b>242,794</b>	–
Trade payables		
ABM	<b>110,908</b>	116,445
Jinsha Water Supply	<b>4,165</b>	1,233

The related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

The related party transactions in respect of (b) above constitute connected transactions and the disclosures required by Chapter 14A of the Listing Rules are provided in the 'Report of the Directors' section to the annual report.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 44. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Compensation of key management personnel

	2016 RMB'000	2015 RMB'000
Short term employee benefit	5,729	5,654
Retirement benefits scheme contributions	58	49
	<b>5,787</b>	<b>5,703</b>

Further details of the directors' and chief executive's emoluments are included in note 13 to the consolidated financial statements.

#### (c) Guarantees and security

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

	2016 RMB'000	2015 RMB'000
Chuangye Group	450,000	450,000

### 45. RETIREMENT BENEFIT SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2016, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB82,848,000 (2015: RMB89,695,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 46. LITIGATION

In prior year, a lawsuit was filed by a total of 115 engineering staff against Beihai Xinhe in respect of a dispute in the labor service fee between the 115 engineering staff and Beihai Xinhe. Beihai Xinhe had no direct relationship with those individuals but acted as the main contractor for a construction project. In 2016, Beihai Xinhe received a civil order issued by the Zhang Yuan Xian District Court (the "District Court"), which accepted the application by the 115 engineering staff for property attachment prior to lawsuit to freeze Beihai Xinhe's bank accounts in an aggregate amount of approximately RMB15,560,000. In connection with the lawsuit, five of Beihai Xinhe's bank accounts an aggregate amount of approximately RMB2,832,000 was frozen. As at the date of this report, the legal proceedings are in progress. No accrual has been recorded by the Group as at 31 December 2016 based on the opinion provided by the PRC legal counsel acting on behalf of Beihai Xinhe.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 47. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2016 RMB'000	2015 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		349	429
Investment in subsidiaries		10,446,021	10,300,662
Amount due from subsidiaries	(i)	14,810,574	13,151,529
Other financial assets		14,631	–
		<b>25,271,575</b>	23,452,620
<b>Current assets</b>			
Prepayment and other receivables		453,637	94,095
Amount due from subsidiaries	(i)	–	32,468
Other financial assets		6,211	–
Cash and cash equivalents		948,311	13,088
		<b>1,408,159</b>	139,651
<b>Current liabilities</b>			
Other payables		36,743	47,340
Amounts due to subsidiaries	(i)	3,058,165	2,361,920
Bank borrowings – due within one year		4,781,996	–
Guaranteed notes		2,768,436	–
		<b>10,645,340</b>	2,409,260
<b>Net current liabilities</b>		<b>(9,237,181)</b>	(2,269,609)
<b>Total assets less current liabilities</b>		<b>16,034,394</b>	21,183,011
<b>Non-current liabilities</b>			
Amount due to subsidiaries	(i)	–	1,378,060
Bank borrowings – due after one year		–	3,768,990
Guaranteed notes		2,070,436	4,505,961
		<b>2,070,436</b>	9,653,011
<b>Net assets</b>		<b>13,963,958</b>	11,530,000
<b>Capital and reserves</b>			
Share capital		474,057	415,834
Reserves	(ii)	13,489,901	11,114,166
<b>Total equity</b>		<b>13,963,958</b>	11,530,000

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 47. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

- (i) The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand
- (ii) Movement in reserves

	Share premium RMB'000	Share reserve* RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	6,154,439	3,193,854	1,195,910	10,544,203
Shares issued	1,087,444	–	–	1,087,444
Profit and total comprehensive income for the year	–	–	850,476	850,476
Dividend recognised as distribution	–	–	(1,367,957)	(1,367,957)
At 31 December 2015 and 1 January 2016	7,241,883	3,193,854	678,429	11,114,166
Shares issued	3,163,917	–	–	3,163,917
Shares issue expenses	(12,657)	–	–	(12,657)
Profit and total comprehensive income for the year	–	–	155,180	155,180
Dividend recognised as distribution	–	–	(930,705)	(930,705)
At 31 December 2016	10,393,143	3,193,854	(97,096)	13,489,901

\* Share reserve represented capitalisation of amount due to a related party in prior year.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly		2016 %	2015 %	
				2016 %	2015 %	2016 %	2015 %			
China Hongqiao Investment Limited	British Virgin Islands ("BVI")	Ordinary Shares	US\$200	100	100	-	-	100	100	Investment holding
Hongqiao Investment (Hong Kong) Limited ("Hongqiao Investment")	Hong Kong	Ordinary Shares	HK\$10,100	-	-	100	100	-	-	Investment holding
PT. Well Harvest Winning Alumina Refinery ("PT Well")	Jakarta, Indonesia	Ordinary Shares	IDR2,334,000,000,000	61	60	-	-	61	60	Manufacture and sale of alumina
Hongqiao International Trading Limited	Hong Kong	Ordinary Shares	HK\$10,000,000	-	-	100	100	-	-	Trading of bauxite
山東宏橋新型材料有限公司 Shandong Hongqiao New Material Co., Ltd ("Shandong Hongqiao")*	PRC	Ordinary Shares	US\$1,533,120,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
鄒平縣宏利熱電有限公司 Zouping Hongli Thermal Power Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB1,817,065,373 / RMB3,700,000,000	-	-	100	-	-	-	Production and sale of electricity
鄒平縣宏茂新材料科技有限公司 Zhouping Hongmao New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB1,500,000,000	-	-	100	-	-	-	Manufacture and sale of aluminum products
鄒平縣宏正新材料科技有限公司 Zhouping Hongzheng New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB700,000,000	-	-	100	-	-	-	Manufacture and sale of aluminum products
山東魏橋鋁電有限公司 Shandong Weiqiao Aluminum & Power Co., Ltd. ("Shandong Weiqiao")*	PRC	Ordinary Shares	RMB13,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly		2016	2015	
				2016	2015	2016	2015			
%	%	%	%	%	%					
鄧平縣宏旭熱電有限公司 Zouping Hongxu Power Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB8,200,000,000	-	-	100	-	-	-	Production and sale of electricity
鄧平縣匯聚新材料科技有限公司 Zouping Huiju New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB459,293,189 / RMB500,000,000	-	-	100	-	-	-	Research and development, sale of bauxite, manufacture and sale of aluminum products
鄧平縣匯才新材料科技有限公司 Zouping Huicai New Material Technology Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB3,700,000,000	-	-	100	-	-	-	Research and development, sale of bauxite, manufacture and sale of aluminum products
鄧平縣匯盛新材料科技有限公司 Zouping Huisheng New Material Technology Co., Ltd. (note i)	PRC	Ordinary Shares	RMB5,900,000,000	-	-	100	-	-	-	Research and development, sale of bauxite, manufacture and sale of aluminum products
鄧平縣匯茂新材料科技有限公司 Zouping Huimao New Material Technology Co., Ltd. (note i)	PRC	Ordinary Shares	RMB5,500,000,000	-	-	100	-	-	-	Research and development, sale of bauxite, manufacture and sale of aluminum products
惠民縣匯宏新材料有限公司 Huimin Huihong New Aluminum *	PRC	Ordinary Shares	RMB5,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
濱州市沾化區匯宏新材料有限公司 Zhanhua Country New Aluminum Profiles Co., Ltd. ("Zhanhua Huihong") *	PRC	Ordinary Shares	RMB1,836,540,000/ RMB3,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
陽信縣匯宏新材料有限公司 Yangxin Country New Aluminum Profiles Co., Ltd.*	PRC	Ordinary Shares	RMB1,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place and date of incorporation/ establishment	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly		2016	2015	
				2016	2015	2016	2015			
濱州北海匯宏新材料有限公司 Binzhou Beihai New Aluminum Profiles Co., Ltd.*	PRC	Ordinary Shares	RMB2,744,280,000/ RMB3,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
濱州市濱北新材料有限公司 Binzhou Binbei New Aluminum Profiles Co., Ltd. ("Binbei Aluminum")*	PRC	Ordinary Shares	RMB1,500,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
山東宏橋融資租賃有限公司 Shandong Hongqiao Financial Leasing Co., Ltd. ("Hongqiao Financial Leasing")*	PRC	Ordinary Shares	US\$200,000,000	-	-	100	100	-	-	Financial leasing
濱州魏橋環保科技有限公司 Binzhou Weiqiao Environmental and Technology Co., Ltd.*	PRC	Ordinary Shares	RMB5,000,000	-	-	-	100	-	-	Environmental protection and inspection
山東宏帆實業有限公司 Shandong Hongfan Industrial Co., Ltd.*	PRC	Ordinary Shares	RMB1,000,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
濱州宏展鋁業科技有限公司 Binzhou Hongzhan Aluminum Technology Co., Ltd.*	PRC	Ordinary Shares	RMB200,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
濰平宏發鋁業科技有限公司 Zouping Hongfa Aluminum Technology Co., Ltd.*	PRC	Ordinary Shares	RMB700,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
山東宏濱國際商貿有限公司 Shandong Hongbin-International Business Co., Ltd.*	PRC	Ordinary Shares	RMB30,000,000	-	-	100	100	-	-	Manufacture and sale of aluminum products
濱州市北海信和新材料有限公司 Binzhou Municipal Beihai Xinhe New Material Co., Ltd.* (note i)	PRC	Ordinary Shares	RMB1,218,370,000/ RMB2,100,000,000	-	-	100	-	-	-	Manufacture and sale of aluminum products

\* For identification purpose only.

Notes i: New subsidiary acquired/set up during the year

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities issued at the end of both years ended or anytime during both years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong and the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2016	2015
Sales of aluminum products	The PRC	1	–
Sales of scrap materials	The PRC	1	–
Capital investor	The PRC	1	–
Various trading business	The PRC	1	–
		4	–

None of the subsidiaries have non-controlling interests that are material to the Group.

### 49. EVENT AFTER THE REPORTING PERIOD

- a) On 17 January 2017, Shandong Hongqiao New Material Co., Ltd. (the “Seller”), an indirect wholly-owned subsidiary of the Company and Chongqing Weiqiao Financial Factoring Co., Ltd (“Chongqing Weiqiao”) entered into the Factoring Agreement for a term ending 31 December 2019, pursuant to which Chongqing Weiqiao agreed to provide the Sellers with account receivables factoring services. Chongqing Weiqiao is owned as to 55% by Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. Therefore, Chongqing Weiqiao is deemed as a connected person of the Company under the Rule 14A.12 (1) (c) of the Listing Rules. Accordingly, the transactions between the Sellers and Chongqing Weiqiao constitute Continuing Connected Transactions under Rule 14A.23 of the Listing Rules. Details of which are set out in the announcement of the Company dated 17 January 2017.
- b) On 14 August 2016 and 19 January 2017, Shandong Hongqiao, a indirect wholly-owned subsidiary of the Company, entered into two share transfer agreements with Mr. Yu Rongqiang respectively in relation to the acquisition of 261,096,605 shares of Shandong Hongchuang Aluminum Industry Holding Company Limited (formerly known as Loftan Environmental Technology Co., Ltd.) (the “Target Company”) (the “Target Shares”), representing approximately 28.18% equity interests in the Target Company (the Acquisition”).

Despite that the Group acquired only 28.18% of the equity interest of Hongchuang, the Group is the largest shareholder of Hongchuang and is able to obtain control over Hongchuang. The Acquisition was completed on 21 April 2017. Further details are set out in the announcement of the Company dated 19 January 2017 and 21 April 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 49. EVENT AFTER THE REPORTING PERIOD (Continued)

b) (Continued)

The acquisition has been accounted for using the acquisition method. There was provisional goodwill arising as a result of the acquisition. The Target Company is engaged in aluminum plate and strip manufacture business. The Target Company was acquired so as to continue the expansion of the Group's aluminum products operations.

Consideration transferred	RMB'000
Cash	1,999,618

The fair values of assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	191,942
Investment properties	156,472
Intangible assets	14,970
Prepaid lease payments	270,348
Available-for-sale investments	6,000
Cash and cash equivalents	531,908
Trade receivables	262,160
Prepayment and other receivables	12,568
Inventories	91,882
Trade and bills payables	(56,558)
Other payables and accruals	(8,892)
Bank borrowings	(100,000)
Deferred tax liabilities	(35,220)
Net identifiable assets acquired	1,337,580
Non-controlling interest	(960,650)
Goodwill arising on acquisition	1,622,688
Fair value of consideration	1,999,618

The non-controlling interest (71.82%) in the Target Company recognised at the acquisition date was measured by proportionate share of net assets acquired and amounted to approximately RMB960,650,000.

Acquisition-related costs amounting to approximately RMB1,259,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 49. EVENT AFTER THE REPORTING PERIOD (Continued)

b) (Continued)

Goodwill arose in the acquisition of Target Company because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Target Company. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Hongchuang

	RMB'000
Cash consideration	1,999,618
Less: cash and cash equivalent balances acquired	(531,908)
Less: deposits paid	(899,515)
Net cash outflow arising on acquisition	<u>568,195</u>

On 17 April 2017, Shandong Hongtuo Industrial Company Limited, a wholly-owned subsidiary of the Company, Loften entered into a termination agreement in order to terminate the share subscription agreement signed on 5 December 2016 in relation to subscription of no more than 1,605,136,436 non public A shares of Loften. In addition, Loften, Binzhou Hengwang and four independent individuals entered into a termination agreement in order to terminate the equity transfer agreement signed on 5 December 2016 in relation to acquisition of the entire equity interest in Shandong Innovative Metal Technology Company Limited. Further details are set out in the announcements of the Company dated 23 December 2016, 27 February 2017 and 31 March 2017.

- c) On 10 February 2017, Shandong Weiqiao and an independent third party entered into a loan agreement, pursuant to which Shandong Weiqiao agreed to provide loan of not more than RMB15 billion to the third party for working capital purpose. Loan drawn down by the third party under the agreement has a loan term of 1 year and bears interest at 7% p.a. Up to the date of this report, the total principal plus interest outstanding from the third party amounted to approximately RMB10,368,325,000.

The above loan money represents part of a participation contribution into an industrial fund initiated by the Zouping County government in order to actively carry out the supply side reform of the aluminum industry. As a leading enterprise in the local aluminum industry cluster, the Group actively participates in the establishment and preparation of such industrial funds according to the work arrangement of the Zouping County government. It is understood that this initial contribution will be used mainly for the preparation and formation of industrial fund. Up to the date of this report, the industrial fund is still in the preparatory stage and no formal agreement has been signed. The Company will make relevant disclosures based on the progress. The Company believes that the establishment of such industrial funds will help to reduce the risk of industrial policy and promote the cooperative and healthy development of industrial clusters.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 49. EVENT AFTER THE REPORTING PERIOD (Continued)

- d) On 20 March 2017, the Company and CTI Capital Management Limited (中信信惠國際資本有限公司, “CTICM”) entered into a memorandum of understanding (the “MOU”), pursuant to which CTICM intended to subscribe new shares (the “Subscription Shares”) of the Company to be allotted and issued by the Company (the “Possible Subscription”). Upon the completion of the Possible Subscription, CTICM will become the shareholder of the Company holding not more than 10% of the issued share capital of the Company as enlarged by issue of the Subscription Shares.

On 7 July 2017, CTICM and the Company entered into a supplemental agreement to the MOU (the “Supplemental Agreement”), pursuant to which CTICM and the Company agreed to amend and/or supplement certain terms of the MOU, including the extension of due diligence period and exclusivity period from 3 months to 6 months from 20 March 2017.

Further details of the above agreements are set out in the announcements of the Company dated 20 March 2017 and 7 July 2017. Up to the date of this report, the Possible Subscription has not been completed.

- e) On 12 April 2017, the National Development and Reform Commission of the People’s Republic of China (the “PRC”) (中國國家發展與改革委員會), the Ministry of Industry and Information Technology of the PRC (中國工業和信息化部), the Ministry of Land and Resources of the PRC (中國國土資源部) and the Ministry of Environmental Protection of the PRC (中國環境保護部) jointly issued Notice of Specific Action Working Plans Regarding Regulating Unlawful Electrolytic Aluminum Projects (《清理整頓電解鋁行業違法違規項目專項行動工作方案的通知》). The issuance of such policy manifests continuing promotion of the reform of the supply-side and healthy and stable development of Chinese aluminum industry by the PRC government.

Up to the date of this report, in response to the relevant governmental regulations, decisions and action plans in Chinese aluminum industry, Shandong Hongqiao, an indirect wholly-owned subsidiary, has shut down projects with annual production capacity of approximately 2,680,000 tonnes of aluminum products. Up to the date of this report, the total production capacity being shut down represented approximately 29% of the Group’s total production capacity of aluminum products. Further details are set out in the announcements of the Company dated 15 August 2017.

- f) On 26 June 2017 (“Maturity Date”), the 2017 Guaranteed Notes matured and the Company has redeemed the 2017 Guaranteed Notes in full at their principal amount together with interest accrued to the Maturity Date.
- g) On 28 June 2017, China CITIC Bank Corporation Limited (“CITIC Bank”) and the Company entered into a strategic cooperation agreement (the “Strategic Cooperation Agreement”), pursuant to which, (i) CITIC Bank agreed to grant the comprehensive credit of not more than RMB20 billion to the Company in the next two years subject to relevant regulations of the People’s Bank of China and China Banking Regulatory Commission and the internal risk management systems of CITIC Bank; and (ii) CITIC Bank agreed to provide the Company with other comprehensive financial services, including but not limited to cash management of the Group’s accounts, supply chain finance, investment banking service, wealth management service, international trade service, assets management service, capital market service, etc. Further details are set out in the announcement of the Company dated 28 June 2017.
- h) Between 1 August 2017 and 7 August 2017, certain bondholders of Enterprise bonds B activated the early redemption clause to redeem the bonds at a redemption price equal to 100% of the principal plus unpaid interest. On 21 August 2017, Enterprise bonds B with carrying amounts of approximately RMB731,664,000 was successfully redeemed and is therefore classified as current liabilities on the consolidated statement of financial position.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 49. EVENT AFTER THE REPORTING PERIOD (Continued)

- i) On 15 August 2017, the Company entered into the Share Placing Agreement with the Share Subscriber, being an independent third party, pursuant to which the Share Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 806,640,670 Placing Shares at the Placing Price of HK\$6.80 per Placing Share.

The Placing Shares represent (i) approximately 11.11% of the existing issued share capital of the Company as at 15 August 2017; and (ii) 10.00% of the issued share capital of the Company as enlarged by the Placing Shares (assuming there is no other change in the share capital of the Company between the date of the Share Placing Agreement and the Share Placing Completion Date). The Placing Shares will be issued under the Share Specific Mandate and will rank pari passu in all respects among themselves and with the existing Shares.

Further details are set out in the announcement of the Company dated 15 August 2017. Up to the date of this report, the Placing Shares have not been issued, pending from shareholders' approval and fulfillment of the Resumption Conditions.

- j) On 15 August 2017, the Company entered into the convertible bonds placing agreement with CTICM (the "Purchaser") and CNCB (Hong Kong) Capital Limited, (the "Lead Manager"), both being independent third parties, pursuant to which the Company has agreed to issue and the Lead Manager has conditionally agreed to procure the Purchaser to subscribe and pay for the Convertible Bonds on a best efforts basis. The Convertible Bonds will be issued with an initial principal amount of US\$320,000,000.

The initial Conversion Price (subject to adjustment) is HK\$8.16, representing (i) a premium of approximately 15.74% over the closing price of the Shares as quoted on the Stock Exchange on 21 March 2017, (the "Last Trading Day"), and (ii) a premium of 14.80% to the average closing price of the Shares over the last five (5) consecutive trading days up to and including 21 March 2017, being the Last Trading Day.

Further details are set out in the announcement of the Company dated 15 August 2017. Up to the date of this report, the Convertible Bonds have not been issued, pending from shareholders' approval and fulfillment of the Resumption Conditions.

### 50. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group returned certain construction materials included in construction in progress under property, plant and equipment of approximately RMB3,955,477,000 to a supplier in which the amount will be used to offset against future purchase with that supplier.



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