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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」)日期為二零一九年九月二十四日及二零一九年九月二十五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備忘錄(「發售備忘錄」)，該發售備忘錄已於二零一九年十月三日在新加坡交易所網站刊載。

於聯交所網站登載發售備忘錄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。

發售備忘錄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。

發售備忘錄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。不應根據發售備忘錄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  
張波

香港，二零一九年十月四日

於本公告日期，董事會包括九名董事，即執行董事張波先生、鄭淑良女士及張瑞蓮女士，非執行董事楊叢森先生、張敬雷先生及陳一松先生（張浩先生為其替任董事），以及獨立非執行董事邢建先生、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 memorandum (the “Offering Memorandum”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Memorandum. In accessing the Offering memorandum, 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 REGULATIONS 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 MEMORANDUM 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 Memorandum 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 Memorandum, 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 Memorandum by electronic transmission.

Within the United Kingdom, the Offering Memorandum 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 Memorandum 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 Memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The Offering Memorandum 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 Memorandum or any of its contents.

**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; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, 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. 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.

**Singapore Securities and Futures Act Product Classification** – In connection with Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309a(1) of the SFA), the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum 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 Memorandum to any other person.

The materials relating to the offering contemplated under the Offering Memorandum 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 Memorandum 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, Crédit Agricole Corporate and Investment Bank, Barclays Bank PLC, DBS Bank Ltd., CMB International Capital Limited, ING Bank N.V., Singapore Branch, Société Générale, Orient Securities (Hong Kong) Limited, China Securities (International) Corporate Finance Company Limited, BOCI Asia Limited and ABCI 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 Memorandum 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)*

**US\$200,000,000 7.375% Senior Notes due 2023**

**Issue Price: 99.987%**

Our 7.375% Senior Notes due 2023 (the “Notes”) will bear interest from October 2, 2019 at 7.375% per annum payable semi-annually in arrears on May 2 and November 2 of each year, commencing May 2, 2020. Unless previously repurchased or redeemed, the Notes will mature on May 2, 2023.

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 in “Description of the Notes” 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 US\$320,000,000 5.0% convertible bonds due 2022 issued by the Company on November 28, 2017 (the “November 2017 CB”), the US\$300,000,000 7.125% senior unsecured notes due 2022 issued by the Company on July 22, 2019 (the “July 2019 Notes”) and all other unsecured, unsubordinated Indebtedness (as defined in “Description of the Notes” 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 “Description of the Notes” beginning on page 107.*

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

The Notes are expected to be rated “B2” by Moody’s Investors Service, Inc. (“Moody’s”), “BB-” by Fitch Ratings Ltd. (“Fitch”) and “BB” by Lianhe Ratings Global Limited (“Lianhe Global”). The rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody’s, Fitch or Lianhe Global. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

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.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知發改外資[2015]2044號)(the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC on July 5, 2019 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 PRC working days after the issue date of the Notes.

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 “Transfer Restrictions” beginning on page 173.

It is expected that the delivery of the Notes will be made on or about October 2, 2019 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

*Lead Global Coordinator*

**China CITIC Bank International**

*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners*

**China CITIC Bank International**

**Crédit Agricole CIB**

**Barclays**

*Joint Bookrunners and Joint Lead Managers*

**DBS Bank Ltd.**

**CMB  
International**

**ING**

**Société  
Générale  
Corporate &  
Investment  
Banking**

**Orient  
Securities  
(Hong Kong)**

**China  
Securities  
International**

**BOC  
International**

**ABC  
International**

Offering memorandum dated September 24, 2019.

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## NOTICE TO INVESTORS

This offering memorandum 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 memorandum and the offering of the Notes in certain jurisdictions. If you come into possession of this offering memorandum, China CITIC Bank International Limited, Crédit Agricole Corporate and Investment Bank, Barclays Bank PLC, DBS Bank Ltd., CMB International Capital Limited, ING Bank N.V., Singapore Branch, Société Générale, Orient Securities (Hong Kong) Limited, China Securities (International) Corporate Finance Company Limited, BOCI Asia Limited and ABCI 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 memorandum 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 memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

**This offering memorandum 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 Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the Prospectus Regulation). 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.**

Singapore Securities and Futures Act Product Classification – In connection with Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309a(1) of the SFA), the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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.

The Notes are expected to be rated “B2” by Moody’s, “BB-” by Fitch and “BB” by Lianhe Global. The rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody’s, Fitch or Lianhe Global. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum 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 memorandum 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 memorandum 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 memorandum, 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 memorandum 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 memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, 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 memorandum 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 memorandum or any such statement.

Each person receiving this offering memorandum 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 memorandum and the offering of the Notes, including the Subsidiary Guarantees, may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum 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 memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

This offering memorandum 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 memorandum. 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 memorandum 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 Beijing Law Office, 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, 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 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 memorandum, 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 memorandum 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 RMB6.8650 to US\$1.00 (the noon buying rate in New York City on June 28, 2019 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 memorandum. All such translations in this offering memorandum 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 memorandum may not correspond to the financial statements included elsewhere in this offering memorandum or may not add up due to rounding. For further information relating to the exchange rates, see “Exchange Rate Information” in this offering memorandum.

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 memorandum 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 memorandum 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 memorandum, 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 memorandum 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 memorandum might not occur. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set out in this section.

## DEFINITIONS

*In this offering memorandum, 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 June 30, 2019, Zhang’s Family directly and indirectly held an approximately 51.21% 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 Zhang’s Family, Shiping Prosperity Private Trust Company, and Hongqiao Holdings who control the exercise of approximately 70.90% of the voting rights in a general meeting of our Company as of the date of this offering memorandum.
“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 Group holds a 61% interest directly and indirectly.
“July 2019 Notes” . . . . .	The 7.125% senior notes the Company issued on July 22, 2019 in the aggregate principal amount of US\$300,000,000, which will mature on July 22, 2022.



“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.
“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 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 memorandum except as indicated otherwise.
“Winning Investment” . . .	Winning Investment (HK) Company Limited, a company duly organized and existing under the laws of Hong Kong.
“Zhang’s Family” . . . . .	Ms. Zheng Shuliang, Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and their direct descendants, one of our Controlling Shareholders.
“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 memorandum 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 memorandum, including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.*

### Overview

Founded in 1994, our Group is a leading large-scale aluminum product manufacturer based in China. As of December 31, 2018, we were the second largest aluminum manufacturer in China in terms of aggregate annual aluminum production capacity, according to Antaike. We have vertically integrated operations that encompass 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 City, 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.

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 currently have nine manufacturing bases in Indonesia, Zouping, Zhanhua District, Beihai New District, Weiqiao, Binzhou, Boxing, Yangxin and Huimin, respectively. Our annual production capacity of aluminum products was approximately 6.46 million tons as of June 30, 2019 with utilization rates of approximately 88.5% for the six months ended June 30, 2019.

We have achieved significant growth in our sales volume of aluminum products since our inception. We sold approximately 7.5 million tons, 6.4 million tons, 3.2 million tons and 2.8 million tons of aluminum products and generated revenue of approximately RMB93,138.0 million, RMB78,651.4 million (US\$11,456.9 million), RMB39,297.6 million and RMB34,894.6 million (US\$5,083.0 million) from sales of aluminum products for the years ended December 31, 2017 and 2018 and the six months ended June 30, 2018 and 2019, respectively. During the same periods, we achieved net profit of approximately RMB5,327.7 million, RMB5,786.3 million (US\$842.9 million), RMB1,962.8 million and RMB2,782.7 million (US\$405.3 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 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 continue the trend of 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**

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

On August 28, 2019, we entered into a facility agreement with China CITIC Bank International Limited (“CBI”) as lender (the “CBI 2019 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$105 million for the refinancing of our existing debts. See “Description of Other Material Indebtedness – Term Loan Facility Agreements – The CBI 2019 Facility” for further information.

### ***Issue of US\$300,000,000 7.125% Senior Unsecured Notes Due 2022***

On July 15, 2019 (after trading hours), we (as the issuer) and the subsidiary guarantors (as the guarantors) entered into a purchase agreement with China CITIC Bank International Limited, Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, Societe Generale Corporate & Investment Banking, ING Bank N.V., Singapore Branch, Orient Securities (Hong Kong) Limited, ABCI Capital Limited, China Securities (International) Corporate Finance Company Limited and CNCB (Hong Kong) Capital Limited (as the initial purchasers), pursuant to which we agreed to issue and the initial purchasers agreed to purchase the 7.125% senior unsecured notes due 2022 in the principal amount of US\$300 million (the “July 2019 Notes”). The July 2019 Notes were issued on July 22, 2019 and listed and quoted on SGX-ST thereafter. The net proceeds of the issue of the July 2019 Notes, after deduction of commission and expenses, amounted to approximately US\$296 million.

***Effect of typhoon “Lekima”***

As affected by the rainstorms brought by typhoon “Lekima”, some of the Group’s production workshops were damaged by the rain, which might bring adverse impact on the Group’s production. According to the preliminary assessment by the Group’s management, it was estimated that the Group’s production volume of aluminum products for 2019 will decrease by 200 to 300 thousand tons as a result of such adverse impact. Further assessment of the time for resuming production according to the situation of particular production workshops is required to determine the impact on the Group’s actual production volume. The Group is actively communicating with relevant local government departments, and has arranged relevant technicians of the Group to commence repair works, and is liaising with the insurer in respect of insurance claim, to reduce relevant impact on a best effort basis. As at the date hereof, the floodwater brought by the rainstorms has receded. Save for the aforesaid affected production capacity, the Group’s business operation is in normal condition.

## 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 memorandum. 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\$200,000,000 aggregate principal amount of 7.375% Senior Notes due 2023 (the “Notes”).
Offering Price . . . . .	99.987% of the principal amount of the Notes.
Maturity Date . . . . .	May 2, 2023.
Interest . . . . .	The Notes will bear interest from and including October 2, 2019 at the rate of 7.375% per annum, payable semi-annually in arrears.
Interest Payment Dates . . .	May 2 and November 2 of each year, commencing May 2, 2020.
Ranking of the Notes . . . .	The Notes will be: <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 2017 CB, the July 2019 Notes 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 . . . .	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.  A Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees – Release of the Subsidiary Guarantees.”

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 and Winning Consortium Alumina Guinea SA.

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 and the Initial Offshore Non-Guarantor Subsidiaries) that are not Subsidiary Guarantors do not account for more than 20.0% of the Total Assets of the Company (computed after excluding Consolidated Assets of all Exempted Subsidiaries and the Initial Offshore Non-Guarantor 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\$197.3 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 depositary 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 October 2, 2019, which the Company expects will be the fifth business day following the date of this offering memorandum 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.				
Rating . . . . .	The Notes are expected to be rated "B2" by Moody's, "BB-" by Fitch and "BB" by Lianhe Global. The rating does not constitute a recommendation to purchase, hold or sell the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's, Fitch or Lianhe Global.				
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 . . . .	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><b>ISIN</b></td> <td style="text-align: center;"><b>Common Code</b></td> </tr> <tr> <td style="text-align: center;">XS2055625839</td> <td style="text-align: center;">205562583</td> </tr> </table>	<b>ISIN</b>	<b>Common Code</b>	XS2055625839	205562583
<b>ISIN</b>	<b>Common Code</b>				
XS2055625839	205562583				
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, 2017 and 2018, which have been audited by SHINEWING (HK) CPA Limited, and are included elsewhere in this offering memorandum, and unaudited interim condensed consolidated financial statements for the six months ended and as of June 30, 2018 and 2019, which have been reviewed by SHINEWING (HK) CPA Limited, and are included elsewhere in this offering memorandum. 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,			For the Six Months Ended June 30,		
	2017 <sup>(1)</sup>	2018	2018	2018	2019	2019
	(Restated)			(Unaudited)	(Unaudited)	(Unaudited)
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands)					
Revenue . . . . .	97,941,916	90,194,924	13,138,372	44,326,570	41,430,060	6,034,969
Cost of sales . . . . .	(81,561,674)	(74,794,362)	(10,895,027)	(37,815,463)	(33,787,534)	(4,921,709)
Gross profit . . . . .	16,380,242	15,400,562	2,243,345	6,511,107	7,642,526	1,113,259
Other income and gains . . . . .	2,497,598	2,135,396	311,055	1,046,700	1,880,232	273,887
Share of gains of associates . . . . .	371,989	429,545	62,570	323,774	376,878	54,898
Selling and distribution expenses . . . . .	(270,215)	(371,206)	(54,072)	(97,301)	(291,648)	(42,483)
Administrative expenses . . . . .	(2,083,209)	(3,867,211)	(563,323)	(1,599,437)	(1,556,076)	(226,668)
Other expenses . . . . .	(5,678,876)	(706,916)	(102,974)	(531,158)	(1,221,067)	(177,868)
Financial costs . . . . .	(4,080,942)	(4,433,389)	(645,796)	(1,982,844)	(2,923,576)	(425,867)
Changes in fair value of derivative . . . . .	(19,897)	397,683	57,929	78,920	(24,896)	(3,627)
Loss on disposal of a subsidiary . . . . .	–	(648,772)	(94,504)	(648,772)	–	–
Profit before taxation . . . . .	7,116,690	8,335,692	1,214,230	3,100,989	3,882,373	565,531
Income tax expense . . . . .	(1,788,953)	(2,549,440)	(371,368)	(1,138,162)	(1,099,670)	(160,185)
Profit for the year/period . . . . .	5,327,737	5,786,252	842,863	1,962,827	2,782,703	405,346
Profit for the year/period attributable to owners of the Company . . . . .	5,130,064	5,407,422	787,680	1,804,265	2,477,037	360,821
Non-controlling interests . . . . .	197,673	378,830	55,183	158,562	305,666	44,525
	<u>5,327,737</u>	<u>5,786,252</u>	<u>842,863</u>	<u>1,962,827</u>	<u>2,782,703</u>	<u>405,346</u>
Earnings per share						
Basic (RMB) . . . . .	<u>0.6986</u>	<u>0.6218</u>	<u>0.0906</u>	<u>0.208</u>	<u>0.287</u>	<u>0.0418</u>
Diluted (RMB) . . . . .	<u>0.6952</u>	<u>0.5936</u>	<u>0.0865</u>	<u>0.207</u>	<u>0.287</u>	<u>0.0418</u>
<b>Other financial data (unaudited)</b>						
EBITDA <sup>(2)</sup> . . . . .	23,370,268	21,523,638	3,135,271	9,972,517	10,821,509	1,576,331
EBITDA margin <sup>(3)</sup> . . . . .	23.9%	23.9%	23.9%	22.5%	26.1%	26.1%
Total debt <sup>(4)</sup> . . . . .	70,567,091	82,900,032	12,075,751	78,326,196	78,436,239	11,425,526
Net debt <sup>(5)</sup> . . . . .	47,356,563	36,263,145	5,282,323	40,351,903	51,210,247	7,459,614
Total debt/EBITDA . . . . .	3.02	3.85	3.85	3.93	3.62	3.62
Net debt/EBITDA . . . . .	2.03	1.68	1.68	2.02	2.37	2.37
EBITDA/Finance cost . . . . .	5.73	4.85	4.85	5.03	3.70	3.70

Notes:

- (1) Restatement of comparative figures as a result of business combination under common control due to the acquisition of Chongqing Weiqiao Financial Factoring Co., Ltd.
- (2) 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.

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2017	2018	2018	2018	2019	2019
	(Restated)			(Unaudited)	(Unaudited)	(Unaudited)
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands)					
Profit and other comprehensive income for the year . . . . .	5,327,737	5,786,252	842,863	1,962,827	2,782,703	405,346
Interest income . . . . .	(663,231)	(691,914)	(100,789)	(398,375)	(173,451)	(25,266)
Finance costs . . . . .	4,080,942	4,433,389	645,796	1,982,844	2,923,576	425,867
Taxation . . . . .	1,788,953	2,549,440	371,368	1,138,162	1,099,670	160,185
Depreciation and amortization . . . . .	7,867,571	7,346,576	1,070,149	3,700,852	3,643,069	530,673
Foreign exchange losses (gains) . . . . .	(529,161)	794,178	115,685	428,949	30,173	4,395
Impairment loss recognised in respect of goodwill . . . . .	668,694	656,945	95,695	508,486	–	–
Impairment loss recognised in respect of property, plant and equipment . . . . .	4,828,763	–	–	–	1,174,743	171,121
Reversal of impairment of property, plant and equipment . . . . .	–	–	–	–	(658,974)	(95,990)
Loss on disposal of a subsidiary . . . . .	–	648,772	94,504	648,772	–	–
EBITDA . . . . .	<u>23,370,268</u>	<u>21,523,638</u>	<u>3,135,271</u>	<u>9,972,517</u>	<u>10,821,509</u>	<u>1,576,331</u>

- (3) EBITDA margin is calculated by dividing EBITDA by revenue.
- (4) 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.
- (5) Net debt is calculated as total debt minus restricted bank deposits and bank balances and cash.

## Statements of Financial Position

	As of December 31,			As of June 30,	
	2017 <sup>(1)</sup>	2018	2018	2019	2019
	(Restated)			(Unaudited)	(Unaudited)
	RMB	RMB	US\$	RMB	US\$
	(in thousands)				
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment . . . . .	84,043,112	76,361,390	11,123,291	74,090,992	10,792,570
Right-of-use assets . . . . .	–	–	–	5,142,428	749,079
Intangible assets . . . . .	13,972	22,673	3,303	21,837	3,181
Prepaid lease payments . . . . .	3,806,787	4,915,054	715,958	–	–
Investment properties . . . . .	150,931	143,606	20,919	–	–
Deposit paid for acquisition of property, plant and equipment . . . . .	421,144	206,324	30,054	260,797	37,989
Deposit paid for acquisition of land . . . . .	14,968	–	–	–	–
Deferred tax assets . . . . .	1,784,856	1,865,927	271,803	2,143,660	312,259
Investment in associates . . . . .	1,325,328	1,895,401	276,096	6,525,656	950,569
Goodwill . . . . .	1,265,763	608,818	88,684	608,818	88,684
Financial assets at fair value through other comprehensive income . . . . .	–	908,170	132,290	806,374	117,462
Available-for-sale investments . . . . .	6,000	–	–	–	–
	<u>92,832,861</u>	<u>86,927,363</u>	<u>12,662,398</u>	<u>89,600,562</u>	<u>13,051,793</u>
<b>CURRENT ASSETS</b>					
Prepaid lease payments . . . . .	85,902	132,414	19,288	–	–
Inventories . . . . .	15,585,329	19,805,561	2,885,005	22,022,285	3,207,908
Trade receivables . . . . .	2,211,734	6,750,578	983,333	10,331,619	1,504,970
Bills receivables . . . . .	11,912,479	11,726,626	1,708,176	10,390,900	1,513,605
Prepayments and other receivables . . . . .	12,846,097	4,747,463	691,546	10,308,954	1,501,668
Other financial assets . . . . .	57	–	–	54	8
Restricted bank deposits . . . . .	1,262,589	1,256,474	183,026	1,500,791	218,615
Cash and cash equivalents . . . . .	21,947,939	45,380,413	6,610,402	25,725,201	3,747,298
	<u>65,852,126</u>	<u>89,799,529</u>	<u>13,080,776</u>	<u>80,279,804</u>	<u>11,694,072</u>
Non-current assets classified as held for sale . . . . .	–	–	–	539,749	78,623
	<u>65,852,126</u>	<u>89,799,529</u>	<u>13,080,776</u>	<u>80,819,553</u>	<u>11,772,695</u>
<b>CURRENT LIABILITIES</b>					
Trade and bills payables . . . . .	16,060,100	16,661,437	2,427,012	13,772,339	2,006,167
Other payables and accruals . . . . .	16,347,810	11,840,680	1,724,790	12,249,913	1,784,401
Bank borrowing – due within one year . . . . .	9,529,148	18,933,735	2,758,009	24,192,377	3,524,017
Income tax payable . . . . .	1,163,430	1,460,994	212,818	1,528,765	222,690
Lease liabilities . . . . .	–	–	–	23,949	3,489
Short-term debentures and notes . . . . .	3,000,000	4,000,000	582,666	–	–
Medium-term debentures and bonds – due within one year . . . . .	7,196,185	1,752,756	255,318	2,974,000	433,212
Guaranteed notes . . . . .	1,957,399	3,078,664	448,458	–	–
Deferred income . . . . .	16,571	19,450	2,833	19,524	2,844
<b>TOTAL CURRENT LIABILITIES . . . . .</b>	<u>55,270,643</u>	<u>57,747,716</u>	<u>8,411,903</u>	<u>54,760,867</u>	<u>7,976,820</u>
<b>NET CURRENT ASSETS (LIABILITIES) . . . . .</b>	<u>10,581,483</u>	<u>32,051,813</u>	<u>4,668,873</u>	<u>26,058,686</u>	<u>3,795,876</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES . . . . .</b>	<u>103,414,344</u>	<u>118,979,176</u>	<u>17,331,271</u>	<u>115,659,248</u>	<u>16,847,669</u>
<b>CAPITAL AND RESERVES</b>					
Share capital . . . . .	526,966	566,172	82,472	559,090	81,441
Reserves . . . . .	50,992,750	59,399,189	8,652,467	59,452,566	8,660,243
Equity attributable to owners of the Company . . . . .	51,519,716	59,965,361	8,734,940	60,011,656	8,741,683
Non-controlling interests . . . . .	2,217,851	2,654,136	386,618	2,903,107	422,885
<b>TOTAL EQUITY . . . . .</b>	<u>53,737,567</u>	<u>62,619,497</u>	<u>9,121,558</u>	<u>62,914,763</u>	<u>9,164,569</u>
<b>NON-CURRENT LIABILITIES</b>					
Lease liabilities . . . . .	–	–	–	66,876	9,742
Other payable . . . . .	–	–	–	122,953	17,910
Bank borrowings – due after one year . . . . .	10,525,603	11,263,803	1,640,758	7,873,808	1,146,949
Liability component of convertible bonds . . . . .	1,095,225	1,012,052	147,422	1,069,868	155,844
Derivatives component of convertible bonds . . . . .	991,660	415,195	60,480	439,669	64,045
Deferred tax liabilities . . . . .	505,397	670,982	97,740	721,369	105,079
Medium-term debentures and bonds – due after one year . . . . .	36,271,871	41,077,258	5,983,577	40,516,509	5,901,895
Other borrowing – due after one year . . . . .	–	1,366,569	199,063	1,370,008	199,564
Deferred income . . . . .	287,021	553,820	80,673	563,425	82,072
<b>TOTAL NON-CURRENT LIABILITIES . . . . .</b>	<u>49,676,777</u>	<u>56,359,679</u>	<u>8,209,713</u>	<u>52,744,485</u>	<u>7,683,100</u>

Note:

- (1) Restatement of comparative figures as a result of business combination under common control due to the acquisition of Chongqing Weiqiao Financial Factoring Co., Ltd..

## RISK FACTORS

*You should carefully consider the risks described below and all other information contained in this offering memorandum 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 memorandum.

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 2017, 2018 and the six months ended June 30, 2018 and 2019, the average selling price of our own aluminum products per ton was approximately RMB12,367, RMB12,370 (US\$1,801.9), RMB12,382 and RMB12,261 (US\$1,786.0), 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 sufficient 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 16.7% 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. Our gross margin for the year ended December 31, 2018 was approximately 17.1%, which remained stable compared to that for the year ended December 31, 2017. 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 City 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. For instance, as affected by the rainstorms brought by typhoon "Lekima" in August 2019, some of our production workshops were damaged by the storm. Our management estimated that our production volume of aluminum products for 2019 will decrease by 200 to 300 thousand tons as a result of "Lekima". See "Recent Development – Effect of Typhoon Lekima" in this offering memorandum for details.

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告》), 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. In May 2018, the Government of Shandong Province has published a Rectification Plan Implementing Opinions of Central Environmental Protection Supervision Team and a List of Rectification Measures (《山東省貫徹落實中央環境保護督察組督查反饋意見整改方案》及《整改措施清單》). As required, Our Group has shut down certain coal-fired power units (煤電機組), and obtained environmental impact assessment documents required for other coal-fired power units to operate legally.

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 overseas countries may adversely affect our results of operations.***

In March 2018, the government of the United States imposed a tariff of 10% 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 an 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 65.6%, 67.6%, 66.9% and 67.4% of our total purchase cost of raw materials for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 RMB2,904 per ton and RMB2,980 per ton (US\$434.1 per ton) for 2017 and 2018, 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, 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. For instance, the 2017 Negative Reports alleged, among other things, that (a) our power-generation cost was 40% higher than disclosed cost; (b) our disclosed power unit cost was not in line with the price trend of coal; (c) we purchase alumina from Gaoxin, an undisclosed related party, at a price lower than market price constituting a subsidy to our Group; (d) we continuously booked negative free cash flow with significant debt size increase; and (e) our capital expenditures have continued to increase. 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. To help investigate and confirm the issues involved, we also 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. BT Risk Assurance carried out the agreed-upon procedures and presented its findings to the Board and the Audit Committee of our Group in July 2017. Based upon the agreed-upon procedures it performed, BT Risk Assurance did not identify any material discrepancies or anomalies in our cost reporting, related party transaction disclosure, liquidity profile/cash balance, CAPEX and profitability, tracing back to 2013.

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. 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 2017, 2018 and the six months ended June 30, 2018 and 2019, our five largest suppliers together accounted for approximately 36.9%, 38.0%, 39.9% and 44.7%, respectively, of our total procurement costs, with our largest supplier accounting for approximately 25.6%, 14.4%, 12.2% and 25.7%, 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 May 2018, the Government of Shandong Province has published a Rectification Plan Implementing Opinions of Central Environmental Protection Supervision Team and a List of Rectification Measures (《山東省貫徹落實中央環境保護督察組督查反饋意見整改方案》及《整改措施清單》), according to which, our Group is required to address the issue that "Bingzhou Weiqiao Group has illegally buried hazardous wastes in excess of 150,000 tons in the mud field". Rectification measures required to be taken includes clean up and transship these hazardous wastes, dispose hazardous wastes efficiently and improve environmental management etc. Our Group has made rectifications as required, among others, paid up fines, build up a temporary storage and clean up and transship these hazardous wastes. The expert panel of the Central Environmental Protection Supervision Team has checked our rectification work and came to the conclusion that it satisfies periodical rectification requirements raised by the Central Environmental Protection Supervision Team. 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. In recent years, the environmental impact of our overseas business operations has received attention from NGOs. For example, Human Rights Watch issued a report with the title of “What Do We Get Out of It? The Human Rights Impact of Bauxite Mining in Guinea” in October 2018, suggesting, among other things, that La Société Minière de Boké (“SMB”), a joint venture located in Guinea and indirectly owned as to 22.5% by our Company, has not done enough to prevent damage to water resources, with significant consequences for local communities. Local environmental authorities of Guinea may impose fines, other penalties and temporary suspension of business activities on SMB in the future. Any remedial requirements imposed by the Guinean government and costs of monitoring and protecting water resources and air quality in local communities may negatively affect the results of operations of SMB.

*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 commenced construction of the second phase of such alumina production facilities, with the same alumina production capacity in the first half of 2019. 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. In addition, we along with several business partners entered into three public contracts with the government of Guinea in December 2018 to develop a bauxite-mining project, a 135km-long railway and an alumina plant in 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 66.0%, 59.4%, 60.9% and 56.1% of our revenue of continuing operations for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. Our largest customer accounted for approximately 48.0%, 39.9%, 41.2% and 36.9% of our revenue of continuing operations for the same periods. 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 77.6%, 74.8%, 75.3% and 70.6% of our total revenue for years ended December 31, 2017 and 2018 and the six months ended June 30, 2018 and 2019, 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 RMB30,757.0 million, RMB25,613.7 million (US\$3,731.1 million), RMB12,901.2 million and RMB11,093.1 million (US\$1,615.9 million) for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 24.3%, 25.5%, 22.3% and 23.8% of our total cost of sales for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 RMB8,826.3 million, RMB4,168.9 million (US\$607.3 million), RMB679.5 million and RMB1,789.5 million (US\$260.7 million) for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 RMB10,581.5 million as of December 31, 2017, net current assets of RMB32,051.8 million as of December 31, 2018 and net current assets of RMB26,058.7 million as of June 30, 2019, 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 June 30, 2019, 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 memorandum, 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 Zhang’s Family, our Controlling Shareholder, may differ from those of our Group and the holders of the Notes, and Zhang’s Family has the ability to cause us to make decisions that may not be in the best interests of the holders of the Notes.***

Zhang’s Family, our Controlling Shareholder, currently beneficially owns approximately 71.00% of the issued share capital of our Company. As such, Zhang’s Family has, and will continue to have, substantial influence over our business. We cannot assure you that Zhang’s Family 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 and some of the Group’s members are in the process of obtaining valid land use rights certificates for certain properties.***

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. Furthermore, some of the Group's members are in the process of obtaining valid land use rights certificates for certain properties. If the Group cannot obtain the relevant certificates or permits in a timely manner and its legal right to use or occupy the relevant land is challenged, its operations on the affected land could be interrupted, which, in turn, may have an adverse effect on its 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 memorandum, 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知》), 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.

The PRC government has also been issuing policies to strengthen air pollution control in recent years. For example, in September 2018, the Ministry of Ecology and Environment of the PRC, together with eleven other relevant national government authorities and six provincial governments, issued the Action Plan for Comprehensively Controlling Air Pollution in the Beijing-Tianjin-Hebei Region and Surrounding Areas in the Autumn and Winter of 2018-2019\* (《京津冀及周邊地區 2018-2019 年秋冬季大氣污染綜合治理攻堅行動方案》), which was aimed at controlling air pollution and improving air quality in the Beijing-Tianjin-Hebei region and surrounding areas. In response to such policy, Binzhou City Economic and Information Commission and Binzhou City Environmental Protection Bureau published the List of Industrial Enterprises for Peak Production in the Autumn and Winter of 2018-2019 in Binzhou City\* (《濱州市2018-2019年秋冬季錯峰生產工業企業清單》) in November 2018, which required our Group to implement peak production by shutting down relevant aluminum and alumina production facilities during certain time periods in the winter season. As a result of such peak production, the aluminum production of our Group was reduced by 45,300 tons and the alumina production of our Group was reduced by 151,000 tons for the year ended December 31, 2018, which had an adverse effect on our revenue and net profit for the year ended December 31, 2018.

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 memorandum are derived from various official government sources and may not be reliable.***

Certain facts and other statistics in this offering memorandum 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.

***Legislation enacted in the Cayman Islands as to Economic Substance may affect our operations.***

Pursuant to The International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands (“Cayman ES Law”) that came into force on January 1, 2019, a “relevant entity” engaged in “relevant activities” is required to satisfy the economic substance test set out in the Cayman ES Law. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands.

Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in the PRC, it is not required to satisfy the economic substance test set out in the Cayman ES Law.

***Legislation enacted in the British Virgin Islands as to Economic Substance may affect our subsidiaries operations.***

Pursuant to the Economic Substance (Companies and Limited Partnerships) Act, 2018 of the British Virgin Islands (“BVI ES Act”) that came into force on January 1, 2019, a BVI “legal entity” engaged in “relevant activities” is required to satisfy the economic substance test set out in the BVI ES Act unless it is tax resident in another jurisdiction (other than a jurisdiction listed on the European Union list of non-cooperative jurisdictions for tax purposes).

Some of our subsidiaries are business companies incorporated under the laws of the BVI and constitute a BVI “legal entity” and may be required to provide some form of economic substance in the BVI under the BVI ES Act.

## **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 Zhang's Family, 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 and was amended on December 29, 2018. 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 and was amended on April 23, 2019. 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 Beijing Law Office, 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 June 30, 2019, our non-guarantor subsidiaries had indebtedness and capital commitments of RMB71,527.0 million (US\$10,419.1 million) and RMB2,268.0 million (US\$330.4 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.

***Any failure to complete the post-issuance report to the NDRC in connection with the Notes may have adverse consequences for the Issuer and/or the investors of the Notes.***

On September 14, 2015, the NDRC promulgated the NDRC Circular pursuant to which, if a PRC enterprise or an offshore enterprise or a branch controlled by a PRC enterprise wishes to issue bonds outside the PRC with a maturity of more than one year, such PRC enterprise must in advance of issuing such bonds, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue. According to the NDRC Notice, the NDRC is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds to the NDRC within 10 business days upon the completion of the bond issue.

We have completed the pre-issuance registration with the NDRC and obtained the registration certificate on July 5, 2019. The NDRC Circular is silent on the legal consequences of noncompliance with the post-issuance notification requirement under the NDRC Circular. If we do not report the post issuance information with respect to the Notes within the timeframe as provided under the NDRC Circular, the NDRC may impose sanctions or other administrative procedures on us which may have a material adverse impact to our business, financial condition or results of operations. In the worst case scenario, such noncompliance with the post-issuance notification requirement under the NDRC Circular may result in it being unlawful for the Issuer to perform or comply with any of its obligations under the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. The Issuer has undertaken to notify NDRC of the particulars of the issue of the Notes within the prescribed timeframe after the Issue Date.

***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 June 30, 2019, was RMB78,436.2 million (US\$11,425.5 million), of which RMB6,909.2 million (US\$1,006.4 million) was secured indebtedness. 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 positive outlook by Moody’s, “B+” with a positive outlook by Standard & Poor’s Ratings Services, “BB-” with a stable outlook by Fitch and “BB” with a positive outlook by Lianhe Global. 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 memorandum 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 memorandum.

***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\$197.3 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)			
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 .....	6.8755	6.6292	6.9737	6.2649
2019				
March .....	6.7112	6.7119	6.7381	6.6916
April .....	6.7347	6.7161	6.7418	6.6870
May .....	6.9027	6.8519	6.9182	6.7319
June .....	6.8650	6.8977	6.9298	6.8510
July .....	6.8833	6.8775	6.8927	6.8487
August .....	7.1543	7.0629	7.1628	6.8972
September (through September 13) .....	7.0754	7.1206	7.1786	7.0754

(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 June 30, 2019, 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 memorandum.

	As of June 30, 2019			
	Actual		As Adjusted for the Notes	
	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands)			
Total bank borrowings – due within one year . . . . .	24,192,377	3,524,017	24,192,377	3,524,017
Total bank borrowings – due after one year. . . . .	7,873,808	1,146,949	7,873,808	1,146,949
Medium-term debentures and bonds				
– due within one year . . . . .	2,974,000	433,212	2,974,000	433,212
Medium-term debentures and bonds				
– due after one year. . . . .	40,516,509	5,901,895	40,516,509	5,901,895
Notes to be issued . . . . .	–	–	1,354,465	197,300
Convertible bonds – liability component . . . . .	1,069,868	155,844	1,069,868	155,844
Convertible bonds – derivative component . . . . .	439,669	64,045	439,669	64,045
Other borrowing – due after one year. . . . .	1,370,008	199,564	1,370,008	199,564
<b>Total debt</b> . . . . .	<b>78,436,239</b>	<b>11,425,526</b>	<b>79,790,704</b>	<b>11,622,826</b>
<b>Equity</b>				
Capital and reserves				
Share capital. . . . .	559,090	81,441	559,090	81,441
Reserves . . . . .	59,452,566	8,660,243	59,452,566	8,660,243
Equity attributable to owners of the Company . . . . .	60,011,656	8,741,684	60,011,656	8,741,684
Non-controlling interests . . . . .	2,903,107	422,885	2,903,107	422,885
Total equity . . . . .	62,914,763	9,164,569	62,914,763	9,164,569
<b>Total capitalization<sup>(1)</sup></b> . . . . .	<b>141,351,002</b>	<b>20,590,095</b>	<b>142,705,467</b>	<b>20,787,395</b>

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

As of June 30, 2019, our total cash and cash equivalents (excluding restricted cash) amounted to RMB25,725.2 million (US\$3,747.3 million). Our cash and cash equivalents were mainly held in RMB and US dollars, with approximately 95.4% held in RMB and approximately 3.9% held in US dollars.

As of June 30, 2019,

- we had approximately RMB78,436.2 million (US\$11,425.5 million) of consolidated indebtedness outstanding, of which approximately RMB6,909.2 million (US\$1,006.4 million) was secured;
- we had offshore outstanding secured indebtedness in principal amounts totaling approximately US\$277.1 million. See “Description of Other Material Indebtedness Offshore Financing;” and
- our PRC subsidiaries had indebtedness of approximately RMB69,910.1 million (US\$10,183.6 million). In addition, these PRC subsidiaries had capital commitments of approximately RMB267.7 million (US\$39.0 million).

Since June 30, 2019, 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 2019 Facility in an amount up to US\$105 million. See “Description of Other Material Indebtedness” for further information.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since June 30, 2019.

## 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 2018 was approximately 66.8 million tons according to Antaika representing an increase of approximately 3.7% 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 ( $\text{Al}_2\text{O}_3$ ), 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 memorandum. 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

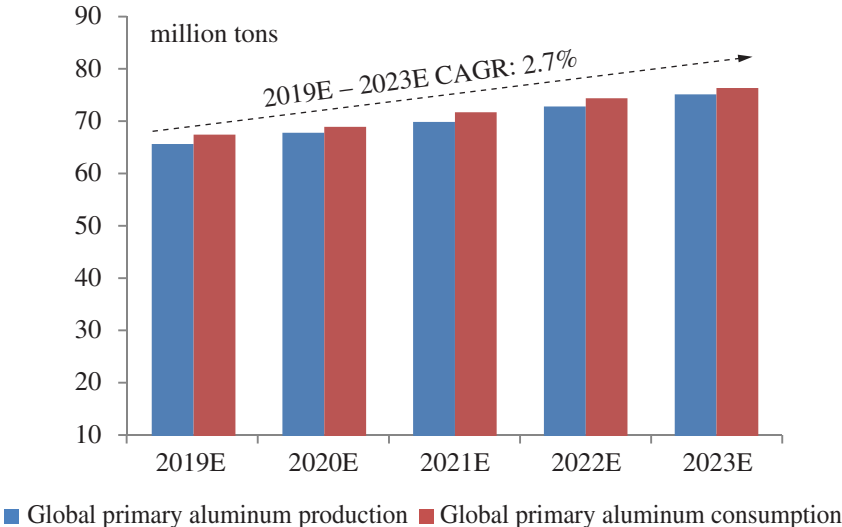
With broad end-use markets, aluminum consumption has been particularly linked to GDP growth.

From 2012 to 2018, worldwide consumption of primary aluminum grew at a CAGR of 5.6%, 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 3.7% in 2018.

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 2018, China's primary aluminum consumption has accounted for 56.0% of the global consumption.

In 2018, the consumption of primary aluminum outside China maintained steady. According to Antaïke, overseas consumption of primary aluminum in 2018 was 29.7 million tons, increased by 2.4% over the previous year, representing 44.4% of the world's total primary aluminum consumption; in 2018, the global consumption of primary aluminum was 66.8 million tons with an annual growth of 3.7%.

Antaïke forecasts that primary aluminum consumption between 2019 and 2023 will grow at a CAGR of 2.7% globally (as the following chart shows).



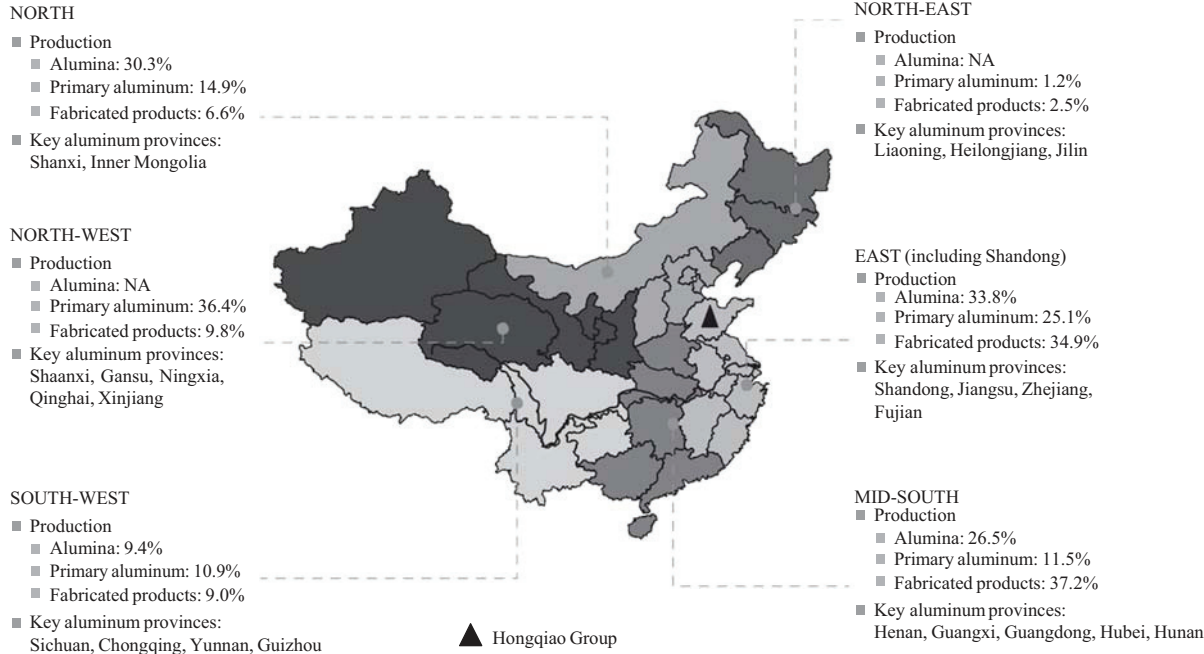
Source: Antaïke



# PRC ALUMINUM INDUSTRY

## Geographical Distribution of Aluminum Production in China

The map below shows the geographical distribution of aluminum production in China for 2018 (as percentages of total production and downstream fabricated products produced in China):



Source: Antaike

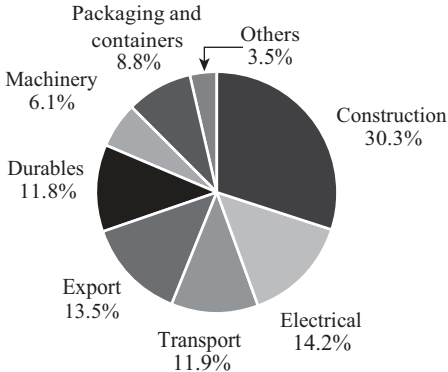
Notes: Definition of the regions is provided by Antaike as follow:  
 East region – Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi, Fujian and Shanghai  
 North-east region – Heilongjiang, Jilin and Liaoning  
 Mid-south region – Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan  
 South-west region – 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, 2018, 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 primary aluminum production region in China, representing 25.1% of the country’s primary aluminum production for 2018. 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 12.1%, from RMB16,184.0 billion in 2004 to RMB90,030.9 billion in 2018. 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 2019 and 2023. 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 2018, China consumed approximately 37.1 million tons of primary aluminum, representing 55.6% of world total consumption. This ratio is expected to reach 56.0% by 2023, according to Antaika. The chart below shows the breakdown of domestic aluminum consumption by end-use in China in the year of 2018.



Source: Antaika

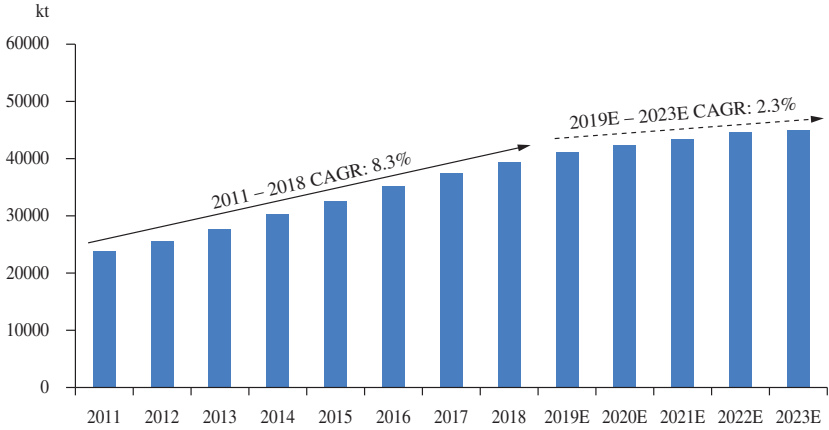
The table below sets forth an overview of the aluminum consumption in China and the United States, Japan, Germany and Canada in the year of 2018.

**Aluminum consumption data in 2018**

<u>Country</u>	<u>Total Aluminum Consumption</u> (ten thousand tons)	<u>Per Capita Aluminum Consumption</u> (kg)	<u>Per Capita GDP</u> (US\$)
United States . . . . .	550	16.9	62,610
Japan . . . . .	210	16.6	39,200
Germany . . . . .	221	26.7	44,470
Canada . . . . .	38	10.6	46,172
<b>China . . . . .</b>	<b>3,713</b>	<b>26.9</b>	<b>9,769</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, according to Antaike, total production of fabricated aluminum products in China increased rapidly at a CAGR of 8.3% from 2011 to 2018, and is expected to grow at a CAGR of 2.3% from 2019 to 2023, which will support the future growth of demand for fabricated aluminum products in China.



Source: Antaike

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

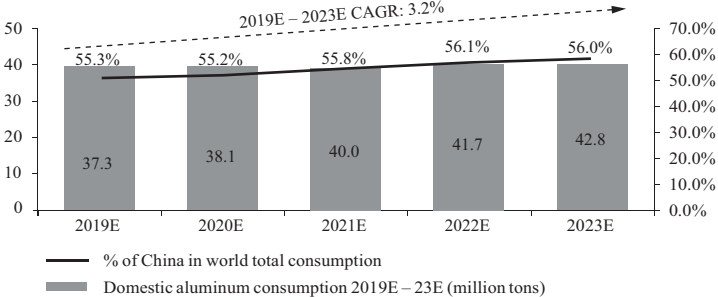
*Construction*

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 RMB64,567.5 billion in 2018, representing a CAGR of 14.1%. 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 Antaike, 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 15.6% from 2009 to 2018, 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 170 per thousand people as of the end of 2018 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. Antaike estimates the aluminum usage in China is currently less than 100 kg per vehicle, as compared to 145 kg in the developed nations. Antaike further estimates the per vehicle aluminum usage in China to increase to 175 kg by 2023. Taken together with the growing vehicle production, it is expected to further drive growth in aluminum demand in China.

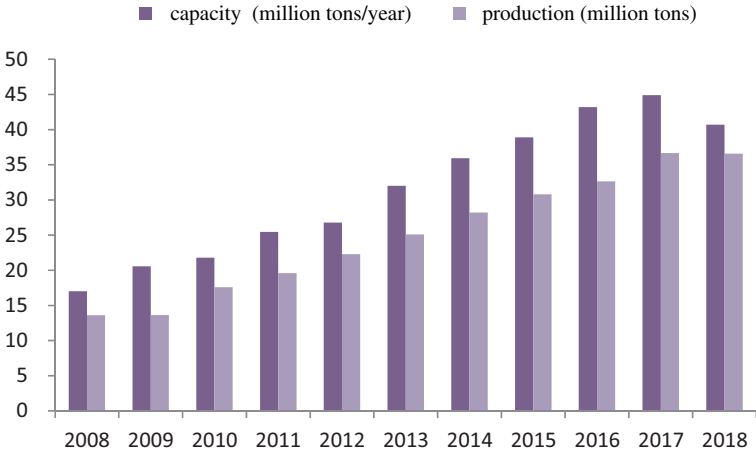
Antaika estimates that China’s primary aluminum consumption will grow at a CAGR of 3.2% from 37.3 million tons in 2019 to 42.8 million tons in 2023, as shown in the chart below.



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 9.3% from 22.3 million tons in 2012 to 36.6 million tons in 2018, compared to the CAGR of 4.9% globally during the same period, while China’s share of global aluminum output rose from 46.5% to 57.0% 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 2008 to 2018.



Source: Antaika

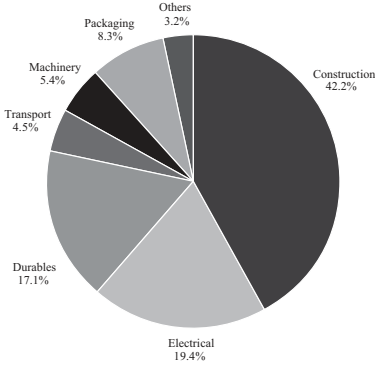
There has also been a sector trend of increasing scale in terms of production capacity and smelter power consumption in the PRC aluminum industry. Average annual production capacity per aluminum manufacturer in China increased significantly from approximately 267,800 tons in 2012 to approximately 433,000 tons in 2018. Meanwhile, capacity associated with over 300 kA smelters accounted for approximately 84.1% of total domestic aluminum capacity as of December 31, 2018.

**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 2018, China consumed approximately 34.9 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 2018. The main users of aluminum fabricated products are from the construction, electrical, durables and packaging.



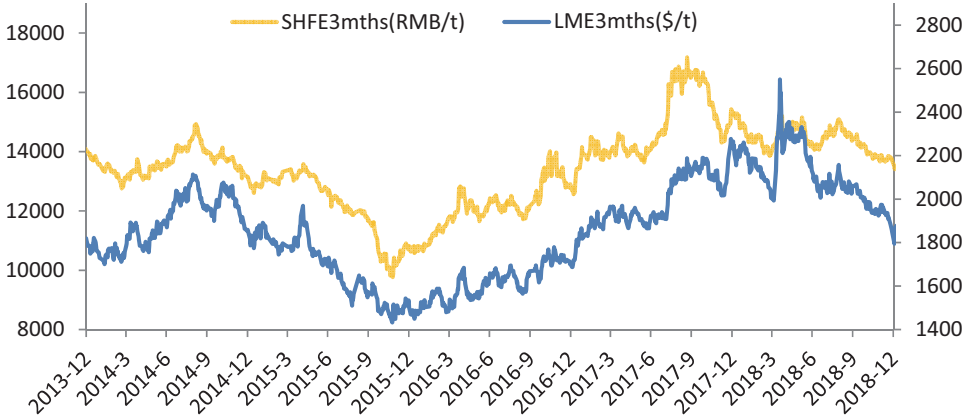
Source: Antaika

Although transportation and packaging only account for a small share (accounting for 4.5% and 8.3% of current fabricated aluminum product consumption in the PRC, respectively) in 2018, 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 3.0% from 2019 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 December 2013 to December 2018.



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.

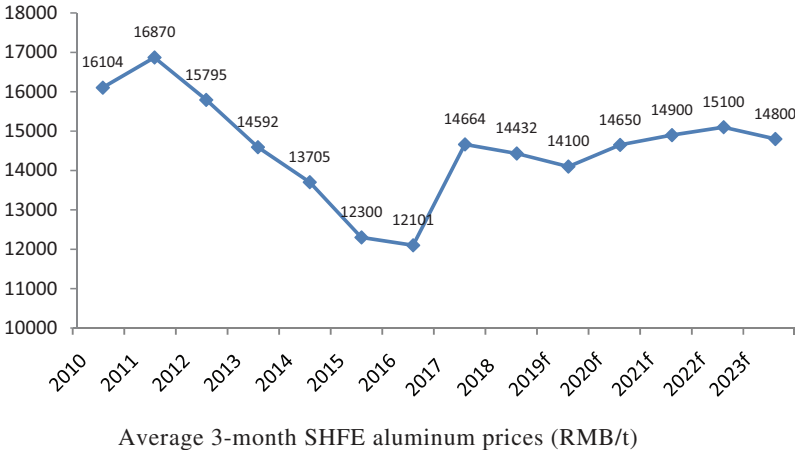
The overall domestic aluminum futures price trend also increased. However, due to the low levels at which prices began at the beginning of the year, average prices were still down as compared with the previous year. In 2016, the LME spot and 3-month future price averaged US\$1,604 per ton and US\$1,605 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.

In 2018, the trend of domestic and international aluminum prices varied. The international price fluctuated significantly with a slight upward movement, while the domestic price fluctuated downward. The LME spot and 3-month future price averaged US\$2,110 per ton and US\$2,114 per ton, representing an increase of 7.2% and 6.8% respectively from 2017. During the same period, SHFE spot and 3-month future price averaged RMB14,251 and RMB14,432 per ton (including VAT for both), representing a decrease of 1.7% and 1.6% respectively from 2017.

**Price outlook**

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



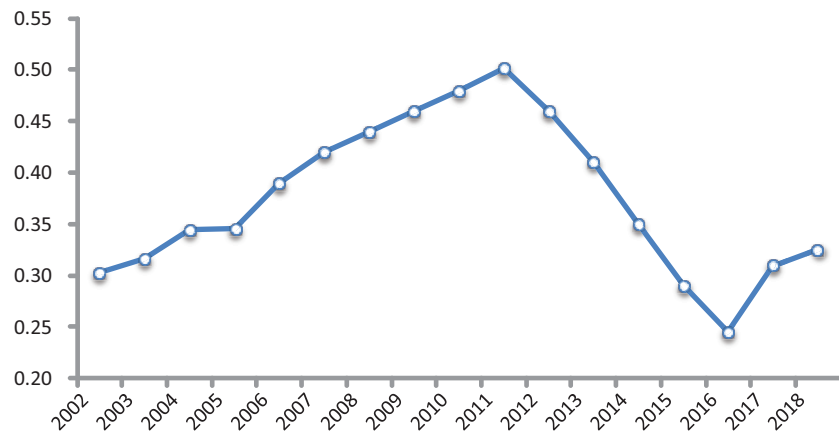
Source: Antaika

**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 2018, the average unit electricity cost was RMB0.32/kWh, representing an increase of 3.2% from 2017.

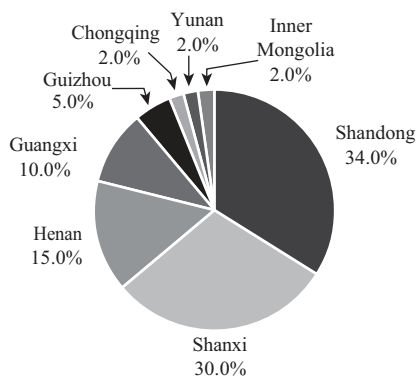


Source: Antaika

With the rapid growth of aluminum smelting capacity in China, electricity supply to this sector has been tight. The electricity cost accounted for 32% of the total production costs of aluminum in China in 2018, as compared to that of 44% in 2010. Therefore, according to Antaika, 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 2018, a total of 41 aluminum manufacturers in China operated captive power plants. The aluminum production capacity of these manufacturers represents approximately 76.0% of total aluminum production capacity in China. The price of electricity is affected by the price of coal. According to Antaika, the average price of mix-quality coal quoted by Qinhuangdao Shanxi quality index was RMB638 per ton and RMB647 per ton for 2017 and 2018, respectively.

### Alumina cost

Alumina is another major cost to aluminum production. According to Antaike, China had total annual alumina production capacity of 83.4 million tons at December 31, 2018. The actual alumina domestic production was 71.8 million tons in 2018. 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 34.0%, 30.0% and 15.0% of China's total capacity in the year of 2018, 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 RMB2,904 per ton and RMB2,980 per ton for 2017 and 2018, respectively, and the average import price of alumina in China was US\$353.0 per ton and US\$472.0 per ton during the same periods.

### Competitive Landscape

As of December 31, 2018, there were a total of 94 aluminum manufacturers in China, according to Antaike. They are located in 21 provinces, with Shandong, Xinjiang and Inner Mongolia as the three largest producing provinces, accounting for 22.4%, 15.2% and 12.6% of domestic capacity as of December 31, 2018, 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, 2018 based on a report issued by Antaike, according to which we were the second largest aluminum manufacturer.

#### Top ten aluminum manufacturers in China

Rank	Company	Designed annual production capacity as of December 31, 2018 (thousand tons per annum)	Nature of Ownership
1	Group 1	7,000	State-owned
2	<b>China Hongqiao Group Limited (our Group)</b>	6,460	Private
3	Group 2	3,640	Private
4	Group 3	2,530	State-owned
5	Group 4	1,910	Private
6	Group 5	1,720	State-owned
7	Group 6	1,470	Private
8	Group 7	1,450	State-owned
9	Group 8	1,370	Private
10	Group 9	1,000	State-owned
<b>Total (% of China)</b>		<b>28,550 (70.1%)</b>	

Source: Antaike



As of December 31, 2018, these ten manufacturers had aggregate designed annual production capacity of approximately 28.6 million tons and accounted for an aggregate of approximately 70.1% of China's domestic capacity. The table below shows the breakdown of aluminum manufacturers by production capacity as of December 31, 2018.

**Breakdown of aluminum manufacturers by designed capacity (as of December 31, 2018)**

Designed Annual Production Capacity (thousand tons per annum)	Number of Companies	% of Total Capacity in China
200 or above .....	62	92.5
300 or above .....	48	84.9
400 or above .....	34	73.5
500 or above .....	26	65.3

Source: Antaike

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 Antaika, there were approximately 180 aluminum sheets and cords manufacturers and 185 aluminum foils manufacturers in China as of December 31, 2018, with total production capacities of 15.5 million and 5.1 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, 2018	Nature
	(thousand tons per annum)	
Group 1 . . . . .	1,200	Private
Group 2 . . . . .	800	Private
Group 3 . . . . .	650	Private
Group 4 . . . . .	450	Private
Group 5 . . . . .	400	Private
<b>Total (% of China)</b> . . . . .	<b>3,500 (31.2%)</b>	

Source: Antaika

#### Top five aluminum foil manufacturers in China

Company	Designed capacity as of December 31, 2017	Nature
	(thousand tons per annum)	
Group 1 . . . . .	450	Private
Group 2 . . . . .	240	Private
Group 3 . . . . .	200	Private
Group 4 . . . . .	150	Private
Group 5 . . . . .	80	Private
<b>Total (% of China)</b> . . . . .	<b>1,120 (28.7%)</b>	

Source: Antaika

For aluminum extrusion products, as of December 31, 2018, there were approximately 1,100 manufacturers in China with a total production capacity of 28.8 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, 2018</b>	<b>Nature</b>
	<b>(thousand tons per annum)</b>	
Group 1 .....	1,000	Private
Group 2 .....	520	Mixed
Group 3 .....	520	Private
Group 4 .....	500	Private
Group 5 .....	450	Private
Group 6 .....	450	Private
<b>Total (% of China)</b> .....	<b>3,440 (11.9%)</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, 2018, 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 22.3% of total domestic capacity. In addition, Shandong Province is China's largest alumina supply base, with an annual capacity of approximately 28.2 million tons for 2018, accounting for 34% of domestic alumina capacity.

Shandong Province is also China's largest manufacturing base of downstream aluminum fabricated products, and manufactured approximately 8.5 million tons, or 18.7% of China's total production for 2018.

As of December 31, 2018, there were four aluminum manufacturers in Shandong Province. The three largest manufacturers accounted for approximately 97.8% of total designed annual production capacity in Shandong Province. The table below sets forth the top four aluminum manufacturers in Shandong Province by designed annual production capacity.

#### Top four aluminum manufacturers in Shandong Province

Company	Designed annual production capacity as of December 31, 2018  (thousand tons)
China Hongqiao Group Limited (our Group) .....	6,460
Shandong Group 1 <sup>(1)</sup> .....	1,580
Shandong Group 2 .....	816
Shandong Group 3 .....	200
<b>Total (as a % of total Shandong Province)</b> .....	<b>9,056 (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 3,640,000 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 City, one of the main aluminum production bases in Shandong Province. There are two aluminum manufacturers in Zouping City, Zouping Aluminum Co., Ltd. and us, with a total designed annual production capacity of 6,460,000 tons per annum as of December 31, 2018, according to Antaike. We represented approximately 71.3% and 100% of total designed annual production capacity in Shandong Province and Zouping City, respectively, as of December 31, 2018 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*

Antaika expects the annual production capacity of downstream customers in the Zouping region to grow from 5.0 million tons as of 2019 to 5.4 million tons as of 2023, and annual demand for primary aluminum in the Zouping region to grow from 3.0 million tons in 2019 to 3.2 million tons in 2023. Antaika expects these growth and greater acceptance of molten aluminum to cause demand for molten aluminum to further increase. Antaika expects annual consumption for molten aluminum to grow from 2.8 million tons in 2019 to 2.9 million tons in 2023, representing a CAGR of 2.8%. Furthermore, Antaika expects that 92% of the demand for aluminum in 2023 in the Zouping region will be met by molten aluminum. According to Antaika, the Group's molten aluminum production capacity accounted for 100% of the total molten aluminum production capacity in Zouping as of December 31, 2018.



## BUSINESS

### OVERVIEW

Founded in 1994, our Group is a leading large-scale aluminum product manufacturer based in China. As of December 31, 2018, we were the second largest aluminum manufacturers in China in terms of aggregate annual aluminum production capacity, according to Antaike. We have vertically integrated operations that encompass 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 City, 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 nine manufacturing bases in Indonesia, Zouping, Zhanhua District, Beihai New District, Weiqiao, Binzhou, Boxing, Yangxin and Huimin, respectively. Our annual production capacity of aluminum products was approximately 6.46 million tons as of June 30, 2019 with utilization rates of approximately 88.5% for the six months ended June 30, 2019.

#### *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 7.5 million tons, 6.4 million tons, 3.2 million tons and 2.8 million tons of aluminum products and generated revenue of approximately RMB93,138.0 million, RMB78,651.4 million (US\$11,456.9 million), RMB39,297.6 million and RMB34,894.6 million (US\$5,083.0 million) for the years ended December 31, 2017 and 2018 and the six months ended June 30, 2018 and 2019, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 77.6%, 74.8%, 75.3% and 70.6% of our revenue derived from aluminum products for the years ended December 31, 2017, 2018 and the six months ended June 30, 2018 and 2019, 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, 2017 and 2018 and the six months ended June 30, 2018 and 2019.

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 2017, 2018 and the six months ended June 30, 2018 and 2019, the self-produced alumina used by our Group accounted for 85.7%, 87.1%, 86.8% and 89.2%, respectively, of the alumina we used in our production of our aluminum products. As of June 30, 2019, 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 2017, 2018 and the six months ended June 30, 2018 and 2019, we produced 73.8%, 78.3%, 73.8% and 83.2%, respectively, of the electricity we used in our production of aluminum products at our thermal power stations. As of June 30, 2019, our power station had an aggregate installed capacity of 12,415 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:

Alumina	For the year ended				For the six months ended			
	December 31,				June 30,			
	2017		2018		2018		2019	
Total Alumina consumed (million tons) . . .	14.46	100.0%	11.91	100.0%	5.90	100.0%	5.44	100.0%
Self-produced (million tons) . . . . .	12.39	85.7%	10.37	87.1%	5.12	86.8%	4.85	89.2%
External purchase (million tons) . . . . .	2.07	14.3%	1.54	12.9%	0.78	13.2%	0.59	10.8%

Electricity	For the year ended		For the six months ended	
	December 31,		June 30,	
	2017	2018	2018	2019
Total electricity consumed (million KWh) . . . . .	108,822	92,031	46,133	41,942
Self-produced (million KWh) . . . . .	80,285	72,066	34,034	34,885
External purchase (million KWh) . . . . .	28,537	19,965	12,099	7,057
Self-sufficiency rate . . . . .	73.8%	78.3%	73.8%	83.2%

### ***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 June 30, 2019, 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 66%, 59.4%, 60.9% and 56.1% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. Our history of relationship with our top customers range from six to thirteen years.



Our largest customer accounted for approximately 48.0%, 39.9%, 41.2% and 36.9% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively.

### **Our Competitive Strengths**

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

Founded in 1994, our Group has developed into a leading large-scale aluminum product manufacturer. As of December 31, 2018, 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 development and sustainable and resilient profitability. Our overall gross profit margin for the years ended December 31, 2017 and 2018 and the six months ended June 30, 2018 and 2019 were approximately 16.7%, 17.1%, 14.7% and 18.4%, respectively, which we believe was among the most competitive in the Chinese aluminum production industry. We believe this also ensures that customers can rely 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 37.1 million tons of primary aluminum, amounting to 55.6% of world total consumption in 2018. According to Antaike, China's aluminum consumption grew at a CAGR of 8.3% from 2014 to 2018, 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 June 30, 2019, we had an annual production capacity of aluminum of approximately 6.46 million tons. Self-produced alumina satisfied approximately 89.2% of our total alumina demand for the six months ended June 30, 2019 and this self-sufficiency rate is expected to continue to increase as part of our long-term goals to reduce supplier dependency and maintain and further enhance self-sufficiency rate. In addition, our captive power plant had an aggregate installed capacity of 12,415 MW as of June 30, 2019. Self-produced electricity satisfied approximately 83.2% of our total electricity needs for the six months ended June 30, 2019. In addition, we have been actively expanding the manufacture and sale of aluminum fabrication products. Sales of aluminum fabrication products grew from RMB5,416.9 million in 2017, accounting for approximately 5.5% of total revenue for the year, to RMB7,135.0 million in 2018, accounting for approximately 7.9% of our total revenue for the year, and from RMB3,347.6 million for the six months ended June 30, 2018, accounting for approximately 7.6% of total revenue for the period, to RMB4,466.5 million for the six months ended June 30, 2019, accounting for approximately 10.8% of our total revenue for the period. 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. We acquired a 28.18% equity interest in Shandong

Hongchuang Aluminum Industry Holding Company Limited in April 2017 to further expand into advanced aluminum fabrication. As of June 30, 2019, our aluminum processing line had a total capacity of 1.03 million tons.

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, which also reduces our exposure to risks of policy changes, (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 2018 was approximately RMB10,222 per ton while the industry average was approximately RMB12,840 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 June 30, 2019, 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 12,415 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, which was constructed in October 2010 and was the first such line constructed by a private company in China. Electricity we produced in-house accounted for 73.8%, 78.3%, 73.8% and 83.2% of the total electricity we used in the two years ended December 31, 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. This percentage of self-sufficiency increased in 2018 as we gave priority to the electricity produced by our captive power plants after shutting off certain production capacity in the second half of 2017 in response to the supply side reform of the aluminum industry. In 2018, our thermal power stations achieved a high capacity utilization rate with annualized average utilization hours of approximately 5,882 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 June 30, 2019, 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 June 30, 2019, we had a production capacity of 1,000,000 tons of alumina in Indonesia. We fully utilized local resources in Indonesia to strengthen the full integration of the local alumina production into our business and to effectively manage the quality and costs of raw materials. Our alumina self-sufficiency rate was 42.8%, 62.5%, 59.7%, 57.6% and 73.4%, respectively, for 2012, 2013, 2014, 2015 and 2016. The self-produced alumina used by our Group accounted for approximately 85.7%, 87.1%, 86.8% and 89.2% of the total alumina that we used in 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively.

This self-sufficiency rate is expected to continue to increase in the future due in part to the success of our project in Indonesia. 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 77.6%, 74.8%, 75.3% and 70.6% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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. Sales of aluminum alloy ingots accounted for approximately 12.0%, 4.5%, 5.8% and 2.8% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively.

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

We are strategically headquartered in Zouping City, 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 3.0 million tons in 2019 to 3.2 million tons in 2023, and annual demand for molten aluminum to grow from 2.8 million tons in 2019 to 2.9 million tons in 2023. Furthermore, Antaike expects that 92% of the demand for aluminum in 2023 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 100% of the total molten aluminum production capacity in Zouping as of December 31, 2018.

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 City. 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 primary aluminum production, representing 25.1% of the country's primary aluminum production for 2018, 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 38.4% of China's national GDP in 2018, 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 June 30, 2019, 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. In addition, we recycle pebble coal to improve our energy utilization efficiency.

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 China CITIC Bank Corporation Limited ("China CITIC Bank"), a large domestic commercial bank incorporated in the PRC. Pursuant to the agreement, China 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 November 2017, CTI Capital Management Limited, an indirectly wholly-owned subsidiary of CITIC Limited, which in turn is ultimately controlled by CITIC Group Corporation, subscribed for approximately 10% of our then share capital and CNCB (Hong Kong) Investments Limited, a subsidiary of China CITIC Bank, which in turn is ultimately controlled by CITIC Group Corporation, subscribed for convertible bonds worth US\$320 million. As of the date of this offering memorandum, CITIC Group Corporation, along with its direct and indirect subsidiaries beneficially owned 10.23% 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 approximately 6.27% of our then share capital.

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 over 40 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. As of the date of this document, we issued four offshore bonds and 100 onshore bonds, and completed eight offshore syndicated loans. 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, which were redeemed in full at their principal amount together with interest accrued to the maturity date on May 3, 2018, and we also issued an aggregate principal amount of US\$450.0 million of our 6.85% senior notes due 2019 in April 2018, which were redeemed in full at their principal amount together with interest accrued to the maturity date on April 22, 2019, and we also issued an aggregate principal amount of US\$300.0 million of our 7.125% senior notes due 2022 in July 2019. 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 4.85 for 2018 and 3.70 for the six months ended June 30, 2019. Our annualized net debt to EBITDA ratio was 1.68 for 2018 and 2.37 for the six months ended June 30, 2019. We had bank balances and cash of well over than US\$1 billion at the end of each of 2017, 2018 and as of June 30, 2019.

### ***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 20 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 continue the trend of 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***

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, 2019 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 achieve this business goal.

#### ***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 City, 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.

### **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 80% of our revenue for each of 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 periods indicated:

	Year ended December 31,							
	2017				2018			
	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	6,192,913	76,001.0	12,272	77.6%	5,526,664	67,420.2	12,199	74.8%
Aluminum alloy ingot	962,316	11,720.1	12,179	12.0%	338,712	4,096.2	12,093	4.5%
Aluminum fabrication products	376,224	5,416.9	14,398	5.5%	493,058	7,135.0	14,471	7.9%
Subtotal	7,531,453	93,138.0	12,367	95.1%	6,358,434	78,651.4	12,370	87.2%
Steam	1,365,284	174.7	128	0.2%	3,935,912	498.6	126.7	0.6%
Alumina	1,877,066	4,629.3	2,466.2	4.7%	4,089,942	11,044.9	2,700.5	12.2%
Total		<u>97,942.0</u>		<u>100.0%</u>		<u>90,194.9</u>		<u>100.0%</u>
	Six months ended June 30,							
	2018				2019			
	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	2,728,076	33,365.8	12,231	75.3%	2,434,677	29,268.8	12,022	70.6%
Aluminum alloy ingot	214,052	2,584.2	12,073	5.8%	97,706	1,159.3	11,866	2.8%
Aluminum fabrication products	231,737	3,347.6	14,446	7.6%	313,581	4,466.5	14,244	10.8%
Subtotal	3,173,865	39,297.6	12,382	88.7%	2,845,964	34,894.6	12,261	84.2%
Steam	2,126,391	262.9	123.6	0.6%	3,069,044	378.4	123.3	0.9%
Alumina	1,822,889	4,766.1	2,614.6	10.7%	2,409,216	6,157.1	2,555.6	14.9%
Total		<u>44,326.6</u>		<u>100.0%</u>		<u>41,430.1</u>		<u>100.0%</u>

### *Molten aluminum alloy*



Molten aluminum alloy is our main product, and it accounted for approximately 77.6%, 74.8%, 75.3% and 70.6% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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 Antaika, approximately 60% 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 Antaika, as of December 31, 2018, we were one of the two molten aluminum alloy suppliers in Binzhou City, accounting for approximately 100% 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 12.0%, 4.5%, 5.8% and 2.8% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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***

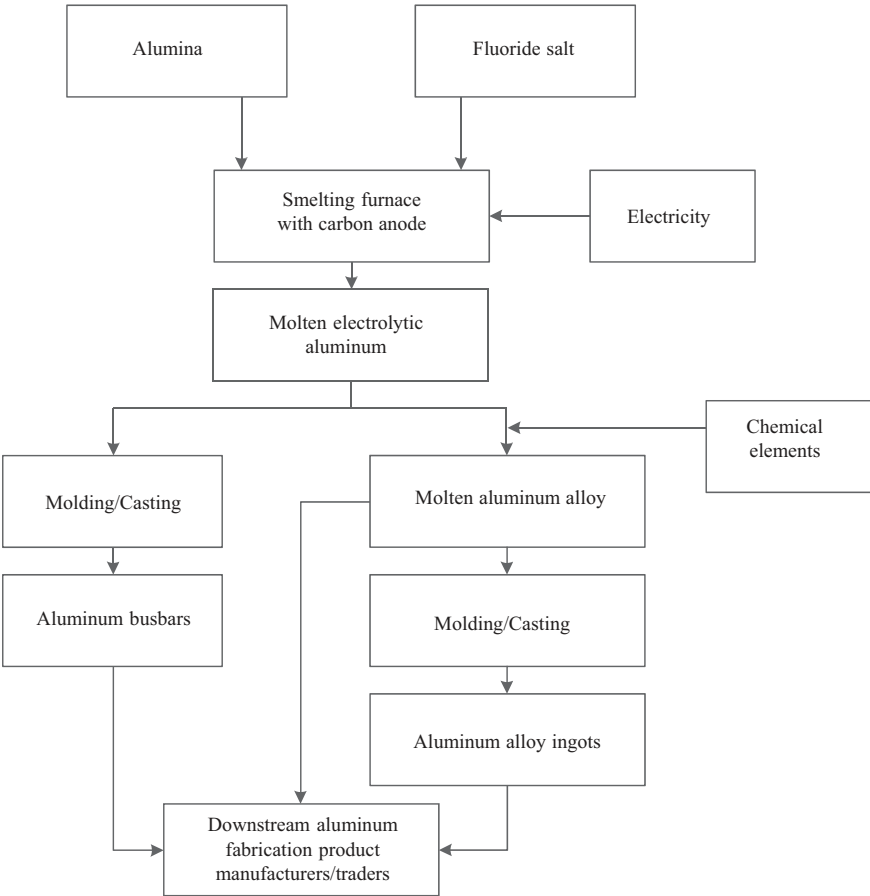
Sales of aluminum fabrication products accounted for approximately 5.5%, 7.9%, 7.6% and 10.8% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. Our downstream aluminum fabrication products principally include aluminum plate, aluminum strip and aluminum foil 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 June 30, 2019. 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. As of June 30, 2019, our production lines for aluminum fabrication products had an aggregate annual production capacity of approximately 1.03 million tons.

### **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 3,250,000 tons, 670,000 tons, 500,000 tons, 720,000 tons, 600,000 tons and 720,000 tons of aluminum product, respectively, as of June 30, 2019 for an aggregate annual production capacity of approximately 6,460,000 tons of aluminum products as of that date. For 2018, we had a weighted average production capacity of approximately 6,460,000 tons and a production volume of approximately 6,365,000 tons. For the six months ended June 30, 2019, we had a weighted average production capacity of approximately 6,460,000 tons and a production volume of approximately 2,860,000 tons.

Our Weiqiao manufacturing base is located in Weiqiao Town, Zouping City, and commenced its operations in September 2006. Our Zouping manufacturing base is located in the Zouping Development District, Zouping City, 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, 2017, 2018 and the six months ended June 30, 2018 and 2019 and our production volumes and utilization rates for the same periods:

	Year ended December 31,		Six months ended June 30,	
	2017	2018	2018	2019
Annual production capacity at year end (tons) . . . . .	6,460,000	6,460,000	6,460,000	6,460,000
Weighted average production capacity (tons) <sup>(1)</sup> . . . . .	7,945,958	6,460,000	6,460,000	6,460,000
Production volume (tons) . . . . .	7,543,729	6,365,225	3,186,897	2,859,565
Utilization rate <sup>(2)</sup> . . . . .	94.9%	98.5%	98.7%	88.5%

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.

With the continuous investment in electrolytic aluminum production line, we had steadily increased our aluminum production capacity up to 2016. 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 decreased to approximately 6.46 million tons and remained at the same level as of June 30, 2019. For the years ended December 31, 2015, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019, our production capacity utilization rates were approximately 97.3%, 96.5%, 94.9%, 98.5%, 98.7% and 88.5%, respectively.

## PROCUREMENT

We procure raw materials and energy, including electricity and coal, from external suppliers. Our five largest suppliers together accounted for approximately 36.9%, 38.0%, 39.9% and 44.7%, respectively, of our total procurement for 2017, 2018 and the six months ended June 30, 2018 and 2019. Our largest supplier for 2017, 2018 and the six months ended June 30, 2018 and 2019, accounting for approximately 25.6%, 14.4%, 12.2% and 25.7%, 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 June 30, 2019, 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, 1.0 million tons, 1.0 million tons and 0.5 million tons of alumina, respectively in 2016, 2017, 2018 and the six months ended June 30, 2019. The self-produced alumina used by our Group accounted for 85.7%, 87.1%, 86.8% and 89.2% of the alumina (in terms of volume) used in our production of our aluminum products at our in-house alumina production facilities in 2017, 2018 and the six months ended June 30, 2018 and 2019, 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. In response to the “Belt and Road Initiative”, China Hongqiao established a “Maritime Silk Route” full value chain logistics line stretching over 14,000 nautical miles. The project commenced operations in 2015 with the first shipment of bauxite from Guinea arriving in China Hongqiao’s domestic base in November 2015, and since then has realized production of approximately 1 million tons of bauxite in 2015, 11 million tons of bauxite in 2016, 32 million tons of bauxite in 2017, 42.0 million tons of bauxite in 2018 and 18.0 million tons of bauxite for the six months ended June 30, 2019.

In addition, we along with several business partners entered into three public contracts with the government of Guinea in December 2018 to develop a bauxite-mining project, a 135 km-long railway and an alumina plant in Guinea, respectively. We believe that implementation of these projects will help to ensure the stability of our raw material supply in the long run.

#### *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:

Alumina	For the year ended				For the six months ended			
	December 31,		June 30,		June 30,		June 30,	
	2017	2018	2018	2019	2018	2019	2018	2019
Total Alumina consumed (million tons) . . .	14.46	100.0%	11.91	100.0%	5.90	100.0%	5.44	100.0%
Self-produced (million tons) . . . . .	12.39	85.7%	10.37	87.1%	5.12	86.8%	4.85	89.2%
External purchase (million tons) . . . . .	2.07	14.3%	1.54	12.9%	0.78	13.2%	0.59	10.8%

### *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, 2018 and the six months ended June 30, 2019. We had electricity production capacity of approximately 12,415 MW as of June 30, 2019. The volume of electricity supplied by our own thermal power stations accounted for approximately 73.8%, 78.3%, 73.8% and 83.2% of the volume of our total electricity consumption for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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:

	Year ended December 31,		Six months ended June 30,	
	2017	2018	2018	2019
<b>Electricity</b>				
Total electricity consumed (million KWh) . . . . .	108,822	92,031	46,133	41,942
Self-produced (million KWh) . . . . .	80,285	72,066	34,034	34,885
External purchase (million KWh) . . . . .	28,537	19,965	12,099	7,057
Self-sufficiency rate . . . . .	73.8%	78.3%	73.8%	83.2%

***Our thermal power stations***

*Power generation*

Our existing thermal power stations started to supply electricity to our operations in January 2007. As of June 30, 2019, our thermal power stations had an installed generation capacity of 12,415 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 6,093 hours and 5,882 hours for 2017 and 2018, respectively, and the utilization rate was approximately 69.6% and 67.1% during the same periods. The average utilization hours of our Group for the six months ended June 30, 2019 were approximately 2,842 hours and the utilization rate was approximately 64.9% during the same period.

*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, 2017, 2018 and the six months ended June 30, 2018 and 2019, sales of steam accounted for 0.2%, 0.6%, 0.6% and 0.9%, 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 RMB19,800.1 million, RMB19,076.2 million (US\$2,778.8 million), RMB8,441.2 million and RMB8,051.3 million (US\$1,172.8 million) in 2017, 2018 and the six months ended June 30, 2018 and

2019, respectively, including the coal used in the generation of electricity and steam. The purchase cost of coal accounted for approximately 24.3%, 25.5%, 22.3% and 23.8% of our total cost of sales for 2017, 2018 and the six months ended June 30, 2018 and 2019, 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>Six months ended</u>	
	<u>2017</u>	<u>2018</u>	<u>June 30,</u>	
			<u>2018</u>	<u>2019</u>
			<b>(RMB/ton)</b>	
Average coal consumption cost (excluding VAT) <sup>(1)</sup> . .	496	493	496	460
Average price (including VAT) of mix-quality coal quoted by Qinhuangdao Shanxi quality index <sup>(2)</sup> . . . . .	638	647	665	575

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 June 30, 2019, we employed 36 sales and marketing personnel.

The head office of our sales and marketing team is located in our manufacturing bases in Zouping City, 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 66.0%, 59.4%, 60.9% and 56.1% of our revenue of continuing operations for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well known traders. Our largest customer accounted for approximately 48.0%, 39.9%, 41.2% and 36.9% of our revenue of continuing operations for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. Sales volume of our aluminum products was approximately 7.5 million tons, 6.4 million tons, 3.2 million tons and 2.8 million tons for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively.

During the two years ended December 31, 2018 and the six months ended June 30, 2019, 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, 2018 and the six months ended June 30, 2019, 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 77.6%, 74.8%, 75.3% and 70.6% of our revenue for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively.

## **INVENTORY CONTROL**

We had inventories of approximately RMB15,585.3 million, RMB19,805.6 million (US\$2,885.0 million) and RMB22,022.3 million (US\$3,207.9 million) as of December 31, 2017 and 2018 and June 30, 2019, respectively. Our average turnover days of inventory, exclusive of those held for sale, were 73, 86, 78 and 111 days for 2017, 2018 and the six months ended June 30, 2018 and 2019, respectively. The increase in our average turnover days of inventory for 2018 was primarily due to the increase in raw material reserve and inventory balance of the Group. The increase in our average turnover days of inventory for the six months ended June 30, 2019 was mainly due to our increased purchase of bauxite for production use, which led to an increase in inventory balance of our Group.

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 June 30, 2019, we had 194 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 June 30, 2019, 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 June 30, 2019, we owned the domain names www.hongqiaochina.com, www.hongqiao-china.com, www.hongqiaogroup.cn and www.hongqiaoxc.com. As of June 30, 2019, we also had seven registered trademarks in Hong Kong, and four registered trademarks in the PRC for our aluminum products.

## **COMPETITION**

The aluminum industry is highly competitive in China. As of December 31, 2018, according to Antaike, there were 94 primary aluminum manufacturers in China, and the average designed annual aluminum production capacity of these manufacturers was 433,000 tons of primary aluminum products, including pure aluminum products and aluminum alloy products. According to Antaike, as of December 31, 2018, only 26 primary aluminum manufacturers in China had a designed annual primary aluminum production capacity of 500,000 tons or more, which accounted for approximately 65.3% 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 City, we accounted for approximately 100% of the total annual production capacity of primary aluminum in Zouping City as of December 31, 2018, 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 electrostatic precipitators and sound insulation equipment to reduce industrial waste and 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 June 30, 2019, 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 June 30, 2019, 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 and passed the OHSAS 18001 verification standards 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\$218.5 million) as of June 30, 2019. 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 June 30, 2019, we employed approximately 41,831 full-time employees. The table below sets forth the breakdown of our employees by functions as of June 30, 2019.

Function	Number of employees
Aluminum production . . . . .	21,596
Alumina production . . . . .	10,612
Power station . . . . .	7,111
Supply . . . . .	240
Sales, marketing and delivery . . . . .	315
Quality control . . . . .	194
General management . . . . .	1,763
<b>Total</b> . . . . .	<b>41,831</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.

## **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 memorandum, 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 May 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 Ecology and Environment of the PRC (中華人民共和國生態環境部), 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 Ecology and Environment 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, newly amended on December 29, 2018, 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告), 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 was adjusted from 17% to 16% and from 11% to 10%, respectively. The Notice and the adjusted VAT rates I.C. took effect on May 1, 2018. Pursuant to the Announcement on Policies for Deepening the VAT Reform ([2019] No. 39)(《關於深化增值稅改革有關政策的公告》), effective from April 1, 2019, for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively.

### **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, newly amended on December 29, 2018, 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 June 30, 2019, 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 June 30, 2019, 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, newly amended on December 29, 2018, 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 Bo . . . . .	49	Chairman, chief executive officer and executive Director
ZHENG Shuliang . . . . .	72	Vice chairman and executive Director
ZHANG Ruilian . . . . .	41	Vice president, chief financial officer and executive Director
YANG Congsen . . . . .	49	Non-executive Director
ZHANG Jinglei . . . . .	42	Non-executive Director
CHEN Yisong . . . . .	50	Non-executive Director
ZHANG Hao . . . . .	45	Alternate Director of Mr. CHEN Yisong
XING Jian . . . . .	69	Independent non-executive Director
HAN Benwen . . . . .	68	Independent non-executive Director
Dong Xinyi . . . . .	42	Independent non-executive Director

### Executive Directors

**Mr. Zhang Bo (張波)**, aged 49, was appointed as an executive Director and chief executive officer of our Company on January 16, 2011 and as the chairman and a member of each of the remuneration committee and nomination committee of our Company on May 31, 2019. 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. He has twelve years of experience in aluminum industry. He is responsible for overseeing the Group's general operation. 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 has over twenty years of management experience. He had also been the deputy general manager of Chuangye Group from April 1998 to February 1999, the general manager, executive director, 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 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 Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) from November 2001 to May 2010. He has been the chairman of Chuangye Group, a director of Shandong Hongqiao since January 2010, a director of Hongqiao Trading since April 2012 and a director of Hongqiao Investment (Hong Kong) Limited since January 2015. He has been the chairman of Binzhou Aluminum Industry Association since June 2014, a deputy to the vice president of China Non-ferrous Metals Industry Association since March 2015, a vice chairman of the International Aluminium Institute since November 2016 and the chairman of Shandong Aluminium Industry Association since March 2019. He has been the director of Hongqiao Investment since May 2019, the chairman of Shandong Hongqiao since June 2019, and the director of Shandong Hongtuo Industrial Company Limited (山東宏拓實業有限公司) (a wholly-owned subsidiary of the Company) since June 2019. He was selected by the State Council as "National Model Worker" in 2010. He was selected as the "2017 China Nonferrous Metals Industry Annual Economic Figure" by China Nonferrous Metals magazine. He was a representative of the twelfth Shandong Provincial People's Congress. Ms. Zheng Shuliang is his mother and Mr. Yang Congsen is his brother-in-law.

**Ms. Zheng Shuliang (鄭淑良)**, aged 72, was appointed as 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 mother of Mr. Zhang Bo and the mother-in-law of Mr. Yang Congsen.

**Ms. Zhang Ruilian (張瑞蓮)**, aged 41, was appointed as an executive Director of our Company on December 11, 2017. She joined our Group in June 2006 and has over eighteen years of experience in accounting. She is responsible for the supervision of the Group's finance and accounting affairs. 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 served as the manager of audit department of Chuangye Group from December 2005 to June 2006. She has been the head of financial department of Aluminum & Power since June 2006, a director of Aluminum & Power since December 2014, the manager of financial department of Shandong Hongqiao since February 2010, a director of Shandong Hongqiao since December 2014, and a director of Hongqiao Trading since April 2012. She is currently the vice president and the chief financial officer of our Company.

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

**Mr. Yang Congsen (楊叢森)**, aged 49, was appointed as 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. He 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 eighteen 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, a director of Shandong Hongqiao and a director of Aluminum & Power. He is the son-in-law of Ms. Zheng Shuliang and the brother-in-law of Mr. Zhang Bo.

**Mr. Zhang Jinglei (張敬雷)**, aged 42, was appointed as 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 capital markets department of Weiqiao Textile from October 2000. He is currently an executive director and company secretary of Weiqiao Textile and a director of Chuangye Group.

**Mr. Chen Yisong (陳一松)**, aged 50, was appointed as a non-executive Director of our Company on August 31, 2018. He graduated from University of Science and Technology Beijing (北京科技大學) in Beijing, the PRC, majoring in computer science and its application in July 1990, and from Hunan University (湖南大學) in Changsha, Hunan Province, the PRC with a master of economics degree majoring in finance in December 2001. He served as the deputy section chief and the section chief of the treasury department of China CITIC Industrial Bank (中信實業銀行, currently known as China CITIC Bank Corporation Limited (中信銀行股份有限公司, Stock Code: 998.HK and 601998.SH)) successively from February 1992 to January 1999. He served as the deputy head and the head of president office of CITIC Securities Co., Ltd. (中信證券股份有限公司, Stock Code: 600030.SH), successively from January 1999 to January 2004. From September 2004 to May 2006, he served as the deputy head of president office of China Construction Bank Corporation (中國建設銀行股份有限公司, Stock Code: 939.HK and 601939.SH). He also served as the deputy general manager, the general manager and the deputy chairman of the board of directors of CITIC Trust Co., Ltd. (中信信託有限責任公司) ("CITIC Trust") successively from May 2006 to June 2014. From December 11, 2017 to February 2, 2018, he had also served as a non-executive Director of our Company. From February 2, 2018 to August 31, 2018, he had served as a strategy and development consultant of our Company. Since June 2014, he has been the chairman of the board of directors and the secretary of the Communist Party

Committee of CITIC Trust and concurrently served as the chairman of China Trustee Association (中國信託業協會). He has also been an executive director of CTI Capital Management Limited (中信信惠國際資本有限公司)(“CTICM”) since October 2014.

**Mr. Zhang Hao (張浩)**, aged 45, was appointed as an alternate Director of Mr. Chen Yisong on August 31, 2018. He graduated from University of International Business and Economics (對外經濟貿易大學, formerly known as China Institute of Finance (中國金融學院)) in Beijing, the PRC with a bachelor of economics degree majoring in international finance in July 1996. He served as a foreign exchange trader and the deputy manager of the treasury department of China CITIC Industrial Bank (中信實業銀行, currently known as China CITIC Bank Corporation Limited (中信銀行股份有限公司, Stock Code: 998.HK and 601998.SH)) successively from August 1996 to June 2003. He served as a director of the financial market department of Calyon Hong Kong Limited from July 2003 to June 2005, and an executive director of financial market department of Bear Stearns Asia Limited from July 2005 to June 2008. He also served as the managing director of financial market department of Standard Chartered Bank (HK) Ltd, from July 2008 to July 2014. From December 11, 2017 to February 2, 2018, he served as an alternate Director to Mr. Chen Yisong, a non-executive Director of our Company. Since August 2014, he has served as the chief executive officer and the executive director of CTICM and also served in CTI Capital Hong Kong Limited (中信信惠國際資本(香港)有限公司, being a wholly-owned subsidiary of CTICM and holding licenses issued by the Securities and Futures Commission of Hong Kong to carry out regulated activities) as the chief executive officer, executive director, the responsible officer for type 1 (dealing in securities) and type 4 (advising on securities) regulated activities and the licensed representative for type 9 (asset management) regulated activities. He concurrently serves as the director of international business of CITIC Trust.

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

**Mr. Xing Jian (邢建)**, aged 69, was appointed as 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) 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. Han Benwen (韓本文)**, aged 68, was appointed as 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. He 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 42, was appointed as 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. He 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, he has been serving in various positions at Central University of Finance and Economics (中央財經大學)("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 47, 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. He 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 County Huihong New Aluminum Profiles Co., Ltd. (惠民縣滙宏新材料有限公司) and executive director and manager of Binzhou Beihai Huihong New Aluminum Profiles Co., Ltd. (濱州北海滙宏新材料有限公司). 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. In 2016, he was awarded the First Prize of the China Nonferrous Metals Industry Scientific Technology Award 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 his technical development and industrialization application of NEUI600kA efficient aluminum electrolytic cell. In 2018, he received accreditation as a senior metallurgical engineer from the Senior Professional and Technical Title Qualification Evaluation Committee of China Nonferrous Metal Mining (Group) Co. Ltd. (中國有色礦業集團有限公司高級專業技術職務任職資格評審委員會). He was elected as the representative of the 15th and 17th People's Congress of Zouping County and the 9th and 10th People's Congress of Binzhou Municipality.

### Company Secretary

**Ms. Zhang Yuexia** (張月霞), aged 43, was appointed as 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 seventeen 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 has been serving as the director of Hongqiao Trading since April 2012. She 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 three independent non-executive Directors: Mr. Han Benwen, Mr. Xing Jian 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. Xing Jian, Mr. Zhang Bo and Mr. Han Benwen. 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 two independent non-executive Directors, Mr. Han Benwen and Mr. Xing Jian, and an executive Director, Mr. Zhang Bo. 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, 2017 and 2018 was approximately RMB4,854,000 and RMB5,675,000, 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, 2017 and 2018 were approximately RMB6,916,000 and RMB5,370,000, 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, 2018 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 memorandum 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 Shares</u>	<u>Approximately Percentage of shareholding</u>
Shiping Prosperity Private Trust Company <sup>(1)</sup> . . .	Trustee	6,076,513,573	70.90%
Hongqiao Holdings . . . . .	Beneficial owner	6,076,513,573	70.90%
CITIC Group Corporation <sup>(2)</sup> . . . . .	Interest in a controlled corporation	877,184,826	10.23%
CITIC Limited <sup>(2)</sup> . . . . .	Interest in a controlled corporation	877,184,826	10.23%
CTICM <sup>(2)</sup> . . . . .	Beneficial owner	806,640,670	9.41%
CNCB (Hong Kong) Investment Limited <sup>(2)</sup> . . .	Beneficial owner	70,544,156	0.82%

Notes:

- (1) Shiping Prosperity Private Trust Company (previously known as Prosperity Eastern Limited) held these Shares as trustee.
- (2) CITIC Group Corporation held 100% interest in CITIC Polaris Limited, which held 32.53% interest in CITIC Limited, and CITIC Group Corporation also held 100% interest in CITIC Glory Limited, which held 25.60% interest in CITIC Limited, thus CITIC Group Corporation indirectly held 58.13% interest in CITIC Limited. CITIC Limited held 100% interest in CITIC Corporation Limited. CITIC Corporation Limited held 80% interest in CITIC Trust and 100% interest in CITIC Industrial Investment Group Corp., Ltd, which held 20% interest in CITIC Trust. Thus, CITIC Corporation Limited directly and indirectly held 100% interest in CITIC Trust. CITIC Trust held 100% interest in CTICM, and thus CITIC Group Corporation and CITIC Limited are deemed to be interested in the shares held by CTICM under the SFO.

CITIC Limited held 65.37% interest in total in China CITIC Bank Corporation Limited, which held 99.05% interest in CNCB (Hong Kong) Investment Limited and 100% interest in CITIC International Financial Holdings Limited, which held 75% interest in China CITIC Bank International Limited, which in turn held 0.95% in CNCB (Hong Kong) Investment Limited, thus China CITIC Bank Corporation Limited directly and indirectly held 99.7625% interest in CNCB (Hong Kong) Investment Limited. Thus, CITIC Group Corporation and CITIC Limited are deemed to be interested in the shares held by CNCB (Hong Kong) Investment Limited under the SFO.

## 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, 2017 and 2018 and the six months ended June 30, 2018 and 2019.

Name	Relationship
Chuangye Group . . . . .	(1)
Binzhou Weiqiao Technology Industrial Park Co., Ltd. ("Binzhou Industrial Park") . . . . .	Controlled by Chuangye Group
Shandong Ming Hong Textile Technology Co., Ltd. ("Ming Hong Textile") . . . . .	Controlled by Chuangye Group
Zouping Weiqiao Renewable Resources Utilization Co., Ltd. ("Zouping Weiqiao") . . . . .	Controlled by Chuangye Group
Binzhou City Beihai Weiqiao Solid Waste Disposal Co., Ltd. ("Beihai Solid Waste") . . . . .	Controlled by Chuangye Group
Shandong Ruixin Tendering Co., Ltd. ("Shandong Ruixin") . . . . .	Controlled by Chuangye Group
Binzhou City Public Construction Investment and Development Co., Ltd. ("Binzhou Investment") . . . . .	Controlled by Chuangye Group
Zhanhua Jinsha Water Supply Co., Ltd. ("Jinsha Water Supply") . . . . .	An associate of Chuangye Group
Caseman Qinhuangdao Auto Parts Manufacturing Co., Ltd. ("Caseman") . . . . .	Controlled by CITIC Group Corporation
CITIC Trust Co., Ltd. ("CITIC Trust") . . . . .	Controlled by CITIC Group Corporation
China CITIC Bank International Limited ("CITIC Bank International") . . . . .	Controlled by CITIC Group Corporation
China CITIC Bank Corporation Limited ("CITIC Bank Corporation") . . . . .	Controlled by CITIC Group Corporation
PT. Harita Jayaraya ("Harita Jayaraya") . . . . .	(2)
PT. Lima Srikandi Jaya . . . . .	Controlled by Harita Jayaraya
PT. Mitra Kemakmuran Line . . . . .	Controlled by Harita Jayaraya
PT. Antar Sarana Rekasa . . . . .	Controlled by Harita Jayaraya
Shandong Innovation Carbon Materials Co., Ltd. ("Innovation Carbon Materials") . . . . .	An associate of a wholly-owned subsidiary of the Company
Zouping Binneng Energy Technology Co., Ltd. ("Binneng Energy") . . . . .	An associate of a wholly-owned subsidiary of the Company
Africa Bauxite Mining Company Ltd. ("ABM") . . . . .	An associate of a wholly-owned subsidiary of the Company
GTS Global Trading Pte. Ltd ("GTS") . . . . .	An associate of a wholly-owned subsidiary of the Company

Notes:

- (1) Zhang's Family, the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group. Chuangye Group is principally engaged in the production and sale of textiles. Our Controlling Shareholder, Zhang's Family, owns approximately 51.21% of equity interest of Chuangye Group.
- (2) Harita Jayaraya has a significant non-controlling beneficial interest in PT Well Harvest Winning Alumina Refinery, a subsidiary of the Company.

The tables below sets forth our significant related party transactions for the periods indicated:

	<u>Year ended December 31,</u>	
	<u>2017</u>	<u>2018</u>
	(RMB in thousands)	
Purchases of water		
– Jinsha Water Supply . . . . .	29,679	14,269
Purchases of bauxite		
– ABM . . . . .	2,796,270	685,170
– GTS . . . . .	–	9,360,681
Sales of steam		
– Binzhou Industrial Park . . . . .	24,310	22,794
– Ming Hong Textile . . . . .	1,961	4,682
– Binzhou Investment . . . . .	–	19,845
Sales of electricity		
– Chuangxin Carbon Materials . . . . .	–	3,542
– Beihai Solid Waste . . . . .	–	91
Sales of molten aluminum alloy		
– Caseman . . . . .	–	1,848,553
Legal and professional fee		
– Shandong Ruixin . . . . .	–	5,004
Sales of raw materials		
– Zouping Weiqiao . . . . .	–	129
Rental expenses		
– Chuangye Group . . . . .	–	2,375
Bank interest income		
– CITIC Bank Corporation . . . . .	–	479
Interest expenses on bank borrowings		
– CITIC Bank International . . . . .	–	67,582
– CITIC Bank Corporation . . . . .	–	171,698
Investment and wealth management service <sup>(1)</sup>		
– CITIC Trust . . . . .	–	–
	<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
	(Unaudited)	(Unaudited)
	(RMB in thousands)	
Purchase of water		
– Jinsha Water Supply . . . . .	7,418	7,279
– Chuangye Group . . . . .	20,000	–
Received industrial waste services		
– Beihai Solid Waste . . . . .	22,913	–
Purchase of bauxite		
– ABM . . . . .	–	685,170
– GTS . . . . .	7,878,872	2,908,823
Purchase of anode carbon block		
– Innovation Carbon Materials . . . . .	79,047	–
Sales of steam		
– Binzhou Industrial Park . . . . .	8,208	13,031
– Ming Hong Textile . . . . .	1,835	2,516
– Binzhou Investment . . . . .	12,787	13,252
Sales of electricity		
– Innovation Carbon Materials . . . . .	1,159	525
– Beihai Solid Waste . . . . .	–	91
Sales of molten aluminum alloy		
– Caseman . . . . .	1,347,470	–
Legal and professional fee		
– Shandong Ruixin . . . . .	2,621	141
Rental expenses		
– Chuangye Group . . . . .	1,301	1,079
– PT. Lima Srikandi Jaya . . . . .	–	–
– Harita Jayaraya . . . . .	616	–
– PT. Mitra Kemakmuran Line . . . . .	–	–
– PT. Antar Sarana Rekasa . . . . .	1,457	–



	<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<b>(RMB in thousands)</b>	
Bank interest income		
– CITIC Bank Corporation . . . . .	390	–
Interest expenses on bank borrowings		
– CITIC Bank International. . . . .	78,774	–
– CITIC Bank Corporation . . . . .	186,148	–
Investment and wealth management service		
– CITIC Trust. . . . .	–	–

Notes:

- (1) An investment and wealth management cooperation framework agreement was entered into between our Company and CITIC Trust on December 3, 2018 and no transaction incurred during the period from December 3, 2018 to June 30, 2019.

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

	<u>Year ended December 31,</u>		<u>Six months ended June 30,</u>	
	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
			<u>(unaudited)</u>	<u>(unaudited)</u>
	<b>(RMB in thousands)</b>			
Chuangye Group . . . . .	499,000	299,000	299,000	299,000

Except as disclosed above and as disclosed elsewhere in our financial statements for 2017, 2018 and the six months ended June 30, 2018 and 2019 (and the notes thereto) included elsewhere (or incorporated by reference) in this offering memorandum, 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 June 30, 2019, our total borrowings amounted to approximately RMB78,436.2 million (US\$11,425.5 million), of which approximately RMB6,909.2 million (US\$1,006.4 million) were secured borrowings. As of June 30, 2019, our total bank borrowings amounted to approximately RMB32.07 billion (US\$4.7 billion), of which approximately RMB1.36 billion (US\$0.2 billion) was undrawn, and approximately 26.7% of which was USD bank borrowings and approximately 73.3% of which was RMB bank borrowings. Our short-term debt within 1 year and 1-5 year medium-term debt accounted for approximately 34.6% and 65.4% of our total debt as of June 30, 2019, respectively. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

### Offshore Financing

#### *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 memorandum. 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.

#### *The July 2019 Notes*

On July 22, 2019, we issued the July 2019 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 July 2019 Notes will mature on July 22, 2022;
- the July 2019 Notes bear interest at a rate of 7.125% per annum;
- at any time prior to July 22, 2022, we may at our option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the July 2019 Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including), the redemption date; and
- at any time and from time to time prior to July 22, 2022, we may at our option redeem up to 35% of the aggregate principal amount of the July 2019 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 107.125% of the principal amount of the July 2019 Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

As of the date of this offering memorandum, we had a total of US\$300 million principal amount of the July 2019 Notes outstanding.

### ***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 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.

#### *The RAINFEI Facility*

On July 30, 2018, we entered into a facility agreement with RAINFEI Investment (BVI) Limited (“RAINFEI”) as lender (the “RAINFEI Facility”), pursuant to which RAINFEI agreed to advance to us term loans of up to US\$200.0 million to finance payment of the purchase price of bauxite from the Republic of Guinea and payment of the arrangement fee.

Each loan made or to be made under the RAINFEI Facility will mature on 24 months after the utilisation date of such loan (the “Original Final Maturity Date”), or if the Original Final Maturity Date shall be extended, 36 months after the utilisation date of such loan (the “Extended Final Maturity Date”). The interest rate for the period from and including the first utilisation date up to and including the Original Final Maturity Date is 7.2% per annum and if the Original Final Maturity is extended to the Extended Final Maturity Date, then for the period from and including the Original Final Maturity Date up to and including the Extended Final Maturity Date, the interest rate is 7.3% per annum.

The RAINFEI 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.

#### *The CBI 2019 Facility*

On August 28, 2019, we entered into a facility agreement with CBI as lender (the “CBI 2019 Facility”), pursuant to which CBI agreed to advance to us term loans of up to US\$105 million for the refinancing of our existing debts.

The CBI 2019 Facility will mature on the date which falls 364 days after August 28, 2019 (the “Final Maturity Date”), with the principal amount payable in full on the Final Maturity Date. The interest rate for all the term loans is the LIBOR plus 3.5% per annum.

The CBI 2019 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 3.00% to 7.50% per annum as of June 30, 2019. 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 3.84% to 8.69% per annum as at June 30, 2019.

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 comply 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 for inspection following prior written request and satisfactory proof of holding 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 2017 CB, the July 2019 Notes 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 May 2, 2023, 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 7.375% 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 semi-annually in arrears on May 2 and November 2 of each year (each an “**Interest Payment Date**”) commencing May 2, 2020.

Interest on Notes held in individual certificated form will be paid to Holders of record at the close of business on April 17 and October 18 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 wire transfer 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 and Winning Consortium Alumina Guinea SA (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 June 30, 2019,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total indebtedness of approximately RMB78,436.2 million (US\$11,425.5 million), of which RMB6,909.2 million (US\$1,006.4 million) was secured; and
- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB71,527.0 million (US\$10,419.1 million).

In addition, as of June 30, 2019, the Non-Guarantor Subsidiaries had capital commitments of approximately RMB2,268.0 million (US\$330.4 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 and the Initial Offshore Non-Guarantor Subsidiaries) that are not Subsidiary Guarantors do not account for more than 20.0% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries and the Initial Offshore Non-Guarantor 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 and the Initial Offshore Non-Guarantor Subsidiaries) exceed 20.0% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries and the Initial Offshore Non-Guarantor 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 and the Initial Offshore Non-Guarantor Subsidiaries) no longer exceed 20.0% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries and the Initial Offshore Non-Guarantor 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 and the Initial Offshore Non-Guarantor Subsidiaries) exceed 20.0% of the Total Assets of the Company (computed after excluding the Consolidated Assets of all Exempted Subsidiaries and the Initial Offshore Non-Guarantor Subsidiaries).

The Board of Directors may at any time 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 May 2, 2023, 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 May 2, 2023, 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 107.375% 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 and the Trustee 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 and/or in compliance with the requirements of the applicable clearing systems; or
- if the Notes are not listed on any national securities exchange or held through the clearing systems, on a *pro rata* basis, by lot or by such method as the Trustee in its sole and absolute discretion deems fair and appropriate, unless otherwise required by applicable law.

Any optional redemption may be subject to such conditions precedent, including the completion of an Equity Offering or other financing transaction, as set out in the notice of redemption.

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. The Trustee will not be responsible for any loss occasioned by acting in reliance on such certificate and opinion. The Trustee is not obligated to investigate or verify any information in such certificate and opinion.

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 and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (b)(xvii) below and the refinancings thereof) does not exceed an amount equal to 15.0% 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);
- (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 (b) (xvi) shall not exceed US\$150.0 million; and

- (xvii) Indebtedness Incurred by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary; **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 permitted by this clause (b)(xvii) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (b)(vii) above and the refinancings thereof) does not exceed an amount equal to 15.0% of Total Assets.
- (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\$1.0 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;
- (9) dividends paid to, or the purchase of Capital Stock of any Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or the type of Indebtedness described under paragraph (b)(xvii) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant;
- (10) the repurchase of Capital Stock of the Company with respect to any fiscal year by the Company or any Restricted Subsidiary, **provided that** such repurchase of Capital Stock of the Company pursuant to this clause (10) shall not in the aggregate exceed US\$30.0 million (or the Dollar Equivalent thereof) in any fiscal year of the Company; or
- (11) 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 (10) 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) to the extent permitted by the applicable laws and regulations (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\$25.0 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 memorandum, 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 memorandum 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. Subject to the provisions of the Indenture, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture unless indemnity and/or security satisfactory to the Trustee against any fee, cost, charge, loss, liability or expense which may be incurred by the Trustee as a result of such exercise has been offered to the Trustee.

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 is unclear, conflicting or equivocal, or 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 (the “**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 depositary and registered in the name of the common depositary 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 depositary 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 Paying Agent in U.S. dollars. The 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 depository, 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 depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository 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 City, Shandong Province, the People’s Republic of China, Fax: +86 543 416 6000, Attention: Mrs. Zhang Ruilian; (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 May 2, 2023, 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 May 2, 2023, plus all required remaining scheduled interest payments due on such Note through May 2, 2023 (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 May 2, 2023 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 May 2, 2023.

“**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.

**"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 “**Incuring**” 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.

“**July 2019 Notes**” means the 7.125% senior notes due 2022 issued by the Company in the aggregate principal amount of US\$300,000,000 on July 22, 2019.

“**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 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 or the Registrar 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 opinion 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 memorandum 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 Bo;
- (2) the estate or the immediate family members of the Person specified in clause (1) and any trust established for the benefit of Mr. Zhang Bo and such immediate family members;
- (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;
- (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 under the caption "*– Limitation on Indebtedness and Preferred Stock*"; and

(16) any Investment by the Company or any Restricted Subsidiary in any Person primarily engaged in a Permitted Business; **provided that:**

- (i) the aggregate of all Investments made under this clause (16) since the Original Issue Date shall not exceed in aggregate an amount equal to 3.0% of Total Assets, **provided that** such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (16) since the Original Issue Date resulting from:
  - (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause (16), 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);
  - (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person;
  - (C) to the extent that an Investment made after the Original Issue Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (16); or
  - (D) such Person becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in such Person since the Original Issue Date shall be deemed to have been made pursuant to clause (i) of this "Permitted Investment" definition);
- (ii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (16) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption "*– Limitation on Transactions with Shareholders and Affiliates*" (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary);
- (iii) no Default has occurred and is continuing or would occur as a result of such Investment; and
- (iv) the Company could, as of the date of such Investment, Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (a) of the covenant described 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 200% 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 200% 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*”;
- (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*”; and
- (30) Liens on the Capital Stock of a Restricted Subsidiary granted by the Company or any Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (b)(xvii) of the second paragraph of the “– *Limitation on Indebtedness and Preferred Stock*” covenant.

“**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 April 13, 1988 (as most recently amended on October 13, 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 September 4, 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 (i) 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 or (ii) of which 50% or

less 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 and in each case which is “controlled” and consolidated by such Person in accordance with GAAP.

“**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.

“**Trust Company Investor**” means an Independent Third Party that is a financial institution or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“**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 memorandum, 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 memorandum, 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 Beijing Law Office, 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.

### ***Value Added Tax***

On March 23, 2016, MOF and SAT issued Circular 36, which introduced a new VAT from May 1, 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent unless otherwise provided for by MOF and SAT. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent.

Circular 36 further clarified that “loan services” refer to the activities of lending capital for another’s use and receiving the interest income thereon. Based on such an interpretation, the issuance of Bonds may be treated as the holders of the Notes providing loans to the Company, which thus shall be regarded as the provision of financial services. Accordingly, if the Company is treated as a PRC tax resident and if PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC, or if the interest component of the amount payable by the Company to the holders of the Notes is viewed as interest income arising within the territory of the PRC, the holders of the Notes shall be subject to the value-added tax at the rate of 6% when receiving the interest payments under the Bonds. In addition, the holders of the Bonds shall be subject to the local levies at approximately 12% of the value-added tax payment and consequently, the combined rate of value-added tax and local levies would be around 6.72%. Given that the Company pays interest income to the holders of the Notes who are located outside of the PRC, the Company, acting as the obligatory withholder in accordance with applicable law, shall withhold the value-added tax and local levies from the payment of interest income to holders of the Notes who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Company does not have the obligation to withhold the value-added tax or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

### ***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 memorandum, 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. . . . .	124,000,000
Crédit Agricole Corporate and Investment Bank. . . . .	30,000,000
Barclays Bank PLC . . . . .	30,000,000
DBS Bank Ltd. . . . .	2,000,000
CMB International Capital Limited . . . . .	2,000,000
ING Bank N.V., Singapore Branch . . . . .	2,000,000
Société Générale . . . . .	2,000,000
Orient Securities (Hong Kong) Limited. . . . .	2,000,000
China Securities (International) Corporate Finance Company Limited . . . . .	2,000,000
BOCI Asia Limited . . . . .	2,000,000
ABCI Capital Limited . . . . .	2,000,000
Total . . . . .	US\$200,000,000

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 memorandum 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 45 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. 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 overallotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Overallotment 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 memorandum, 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 memorandum 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 memorandum 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 memorandum 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.

### ***Prohibition of Sales to EEA Retail Investors***

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes 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 Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the Prospectus Regulation). 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.

### ***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*

Each Initial Purchaser has acknowledged that this offering memorandum 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, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and, has not circulated or distributed, nor will it circulate or distribute, this offering memorandum 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 and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 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 or securities-based derivative contracts (each term as defined in Section 2(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 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 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notification under section 309B(1)(c) of the SFA – In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the “CMP Regulations 2018”), the classification of the Notes has been determined as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### ***PRC***

This offering memorandum 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.

### ***Cayman Islands***

This offering memorandum does not constitute and shall not be construed as an offer or solicitation to the public in the Cayman Islands to subscribe for Notes. No invitation will be made directly or indirectly to any person resident or domiciled in the Cayman Islands to subscribe for any of the Notes and the Notes may not be offered or sold, directly or indirectly, in the Cayman Islands but the Notes may be acquired by Cayman Islands persons who receive the offer outside the Cayman Islands and in a manner which does not contravene the laws of the jurisdictions in which such offer is received.

### ***British Virgin Islands***

This offering memorandum 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 memorandum. You represent that you are relying only on this offering memorandum 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, the Transfer Agent 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 and Hong Kong law, Allbright Beijing Law Office as to matters of PRC law, Conyers Dill & Pearman 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, 2017 and 2018 included in this offering memorandum have been audited by and our interim condensed consolidated financial statements as of and for the six months ended June 30, 2019 included in this offering memorandum have been reviewed 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 September 19, 2019.

### 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 memorandum, 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 June 30, 2019 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 following written request and proof of holding to the satisfaction 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 . . . . .	XS2055625839	205562583

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 memorandum. 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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# Report on Review of Interim Condensed Consolidated Financial Information



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## TO THE BOARD OF DIRECTORS OF CHINA HONGQIAO GROUP LIMITED

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

### INTRODUCTION

We have reviewed the interim condensed consolidated financial information of China Hongqiao Group Limited (the "Company") and its subsidiaries set out on pages 22 to 70, which comprise the condensed consolidated statement of financial position as at 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

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

#### SHINEWING (HK) CPA Limited

*Certified Public Accountants*

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

23 August 2019

Interim Report 2019

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

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>Revenue</b>	5	<b>41,430,060</b>	44,326,570
Cost of sales		<b>(33,787,534)</b>	(37,815,463)
Gross profit		<b>7,642,526</b>	6,511,107
Other income and gains	6	<b>1,880,232</b>	1,046,700
Selling and distribution expenses		<b>(291,648)</b>	(97,301)
Administrative expenses		<b>(1,556,076)</b>	(1,599,437)
Other expenses	7	<b>(1,221,067)</b>	(531,158)
Finance costs	9	<b>(2,923,576)</b>	(1,982,844)
Changes in fair value of derivatives		<b>(24,896)</b>	78,920
Share of profits of associates		<b>376,878</b>	323,774
Loss on disposal of a subsidiary	32	<b>–</b>	(648,772)
<b>Profit before taxation</b>		<b>3,882,373</b>	3,100,989
Income tax expenses	8	<b>(1,099,670)</b>	(1,138,162)
<b>Profit for the period</b>	9	<b>2,782,703</b>	1,962,827
<b>Profit for the period attributable to:</b>			
Owners of the Company		<b>2,477,037</b>	1,804,265
Non-controlling interests		<b>305,666</b>	158,562
		<b>2,782,703</b>	1,962,827
<b>Other comprehensive (expense) income for the period</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translating foreign operations		<b>(746)</b>	33,304
Share of other comprehensive income of associates		<b>3,991</b>	38,573
Other comprehensive income for the period		<b>3,245</b>	71,877
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value loss on equity instruments at fair value through other comprehensive income		<b>(101,796)</b>	–
Total comprehensive income for the period, net of income tax		<b>2,684,152</b>	2,034,704
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		<b>2,378,777</b>	1,863,152
Non-controlling interests		<b>305,375</b>	171,552
		<b>2,684,152</b>	2,034,704
<b>Earnings per share</b>	11		
– Basic (RMB)		<b>0.287</b>	0.208
– Diluted (RMB)		<b>0.287</b>	0.207



## Interim Condensed Consolidated Statement of Financial Position (Unaudited)

At 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	74,090,992	76,361,390
Right-of-use assets	13	5,142,428	–
Intangible assets		21,837	22,673
Prepaid lease payments		–	4,915,054
Investment properties		–	143,606
Deposits paid for acquisition of property, plant and equipment		260,797	206,324
Deferred tax assets		2,143,660	1,865,927
Investment in associates	14	6,525,656	1,895,401
Goodwill	15	608,818	608,818
Financial assets at fair value through other comprehensive income	16	806,374	908,170
		<b>89,600,562</b>	86,927,363
<b>CURRENT ASSETS</b>			
Prepaid lease payments		–	132,414
Inventories	17	22,022,285	19,805,561
Trade receivables	18	10,331,619	6,750,578
Bills receivables	19	10,390,900	11,726,626
Prepayments and other receivables	20	10,308,954	4,747,463
Financial asset at fair value through profit or loss		54	–
Restricted bank deposits	21	1,500,791	1,256,474
Cash and cash equivalents	21	25,725,201	45,380,413
		<b>80,279,804</b>	89,799,529
Non-current assets classified as held for sale	22	539,749	–
		<b>80,819,553</b>	89,799,529
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	23	13,772,339	16,661,437
Other payables and accruals		12,249,913	11,840,680
Bank borrowings – due within one year	24	24,192,377	18,933,735
Lease liabilities	13	23,949	–
Income tax payable		1,528,765	1,460,994
Short-term debentures and notes	26	–	4,000,000
Medium-term debentures and bonds – due within one year	27	2,974,000	1,752,756
Guaranteed notes	28	–	3,078,664
Deferred income		19,524	19,450
		<b>54,760,867</b>	57,747,716



## Interim Condensed Consolidated Statement of Financial Position (Unaudited)

At 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
<b>NET CURRENT ASSETS</b>		<b>26,058,686</b>	32,051,813
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>115,659,248</b>	118,979,176
<b>NON-CURRENT LIABILITIES</b>			
Other payable		122,953	–
Bank borrowings – due after one year	24	7,873,808	11,263,803
Other borrowings – due after one year	25	1,370,008	1,366,569
Lease liabilities	13	66,876	–
Liability component of convertible bonds	29	1,069,868	1,012,052
Derivatives component of convertible bonds	29	439,669	415,195
Deferred tax liabilities		721,369	670,982
Medium-term debentures and bonds – due after one year	27	40,516,509	41,077,258
Deferred income		563,425	553,820
		<b>52,744,485</b>	56,359,679
<b>NET ASSETS</b>		<b>62,914,763</b>	62,619,497
<b>CAPITAL AND RESERVES</b>			
Share capital	30	559,090	566,172
Reserves	31	59,452,566	59,399,189
Equity attributable to owners of the parent		<b>60,011,656</b>	59,965,361
Non-controlling interests		<b>2,903,107</b>	2,654,136
<b>TOTAL EQUITY</b>		<b>62,914,763</b>	62,619,497

## Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2019

	Attributable to owners of the Company							Total RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000 (Note 31)	Capital reserve RMB'000 (Note 31)	Translation reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Retained earnings RMB'000			
At 1 January 2019 (Audited)	566,172	19,829,421	(67,936)	783,942	223,665	7,204,845	31,425,252	59,965,361	2,654,136	62,619,497
Profit for the period	-	-	-	-	-	-	2,477,037	2,477,037	305,666	2,782,703
Other comprehensive (expense) income for the period:										
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	(101,796)	-	-	-	-	(101,796)	-	(101,796)
Exchange difference arising on translating foreign operations	-	-	-	-	(455)	-	-	(455)	(291)	(746)
Share of other comprehensive income of associates	-	-	-	-	3,991	-	-	3,991	-	3,991
Total comprehensive (expense) income for the period	-	-	(101,796)	-	3,536	-	2,477,037	2,378,777	305,375	2,684,152
Capital contribution	-	-	-	-	-	-	-	-	9,000	9,000
Shares repurchased and cancelled (note 30)	(7,082)	(517,769)	-	-	-	-	-	(524,851)	-	(524,851)
Dividend paid (note 10)	-	-	-	-	-	-	(1,807,631)	(1,807,631)	(65,404)	(1,873,035)
	(7,082)	(517,769)	-	-	-	-	(1,807,631)	(2,332,482)	(56,404)	(2,388,886)
At 30 June 2019 (Unaudited)	559,090	19,311,652	(169,732)	783,942	227,201	7,204,845	32,094,658	60,011,656	2,903,107	62,914,763

	Attributable to owners of the Company							Total RMB,000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury share RMB'000	Capital reserve RMB'000 (Note 31)	Translation reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Retained earnings RMB'000			
At 31 December 2017, as previously reported	526,966	14,946,158	-	793,349	58,504	5,996,316	28,912,037	51,233,330	1,983,536	53,216,866
Business combination under common control	-	-	-	275,000	-	-	11,386	286,386	234,315	520,701
At 1 January 2018 (Unaudited and restated)	526,966	14,946,158	-	1,068,349	58,504	5,996,316	28,923,423	51,519,716	2,217,851	53,737,567
Profit for the period	-	-	-	-	-	-	1,804,265	1,804,265	158,562	1,962,827
Other comprehensive income for the period:										
Exchange difference arising on translating foreign operations	-	-	-	-	20,314	-	-	20,314	12,990	33,304
Share of other comprehensive income of associates	-	-	-	-	38,573	-	-	38,573	-	38,573
Total comprehensive income for the period	-	-	-	-	58,887	-	1,804,265	1,863,152	171,552	2,034,704
Issue of shares (note 30(a))	41,710	5,079,271	-	-	-	-	-	5,120,981	-	5,120,981
Transaction costs attributable to issue of shares (note 30(a))	-	(60,822)	-	-	-	-	-	(60,822)	-	(60,822)
Issue of shares upon conversion of convertible bonds (note 30(b))	4,495	468,753	-	-	-	-	-	473,248	-	473,248
Shares repurchased but yet cancelled (note 30)	-	-	(77,095)	-	-	-	-	(77,095)	-	(77,095)
Consideration of acquisition	-	-	-	(284,407)	-	-	-	(284,407)	-	(284,407)
Dividend paid (note 10)	-	-	-	-	-	-	(1,697,064)	(1,697,064)	-	(1,697,064)
	46,205	5,487,202	(77,095)	(284,407)	-	-	(1,697,064)	3,474,841	-	3,474,841
At 30 June 2018 (Unaudited)	573,171	20,433,360	(77,095)	783,942	117,391	5,996,316	29,030,624	56,857,709	2,389,403	59,247,112

## Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2019

	<b>For the six month ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>OPERATING ACTIVITIES</b>		
Cash (used in) generated from operations	<b>(3,190,222)</b>	6,847,280
Income tax paid	<b>(1,259,337)</b>	(970,331)
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<b>(4,449,559)</b>	5,876,949
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	<b>(1,789,519)</b>	(679,518)
Advance to associates	<b>(2,000,000)</b>	(11,432)
Proceeds from disposal of property, plant and equipment	<b>239,314</b>	99,989
Proceeds from disposal of investment properties	<b>315,590</b>	-
Addition to intangible assets	<b>(1,757)</b>	-
Addition to right-of-use assets	<b>(1,515)</b>	-
Proceeds from the termination of derivatives	-	57
Addition to prepaid land lease payments	-	(856,545)
Net cash outflow arising from acquisition of a subsidiary	<b>(27,900)</b>	(284,407)
Net cash inflow arising from disposal of a subsidiary	-	589,000
Proceed from prior year disposal of a subsidiary	<b>590,000</b>	-
Addition of an associate	<b>(2,250,000)</b>	(96,000)
Repayment from a supplier	-	3,300,000
Interest received	<b>100,037</b>	398,375
Placement of restricted bank deposits	<b>(1,336,121)</b>	(583,903)
Withdrawal of restricted bank deposits	<b>1,091,804</b>	419,950
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>	<b>(5,070,067)</b>	2,295,566
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of new shares	-	5,120,981
Transaction costs attributable to issue of new shares	-	(60,822)
Dividends paid	<b>(1,873,029)</b>	(4,844,722)
Payment on repurchases of shares of the Company	<b>(524,851)</b>	(77,095)
Payment of lease liabilities	<b>(8,270)</b>	-
Proceeds from issuance of medium-term debentures and bonds	<b>2,000,000</b>	6,300,000
Proceeds from issuance of short-term debentures and notes	-	4,000,000
Proceeds from issuance of guaranteed notes	-	2,865,150
Repayment of short-term debentures and notes	<b>(4,000,000)</b>	(3,000,000)
Repayment of medium-term debentures	<b>(1,758,000)</b>	(8,442,000)
Transaction costs on issuance of short-term debentures and notes	-	(46,035)
Transaction costs on issuance of medium-term debentures and notes	<b>(23,600)</b>	(72,505)
Transaction costs on issuance of guaranteed notes	-	(30,793)
Repayment of guaranteed notes	<b>(3,076,901)</b>	(1,845,079)
New bank borrowings	<b>10,229,338</b>	14,399,179
Repayment of bank borrowings	<b>(8,819,321)</b>	(6,248,464)
Interest paid	<b>(2,310,956)</b>	(1,694,894)
Receipt of government grants	<b>19,263</b>	99,100
Contribution from non-controlling interests	<b>9,000</b>	-
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>	<b>(10,137,327)</b>	6,422,001
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(19,656,953)</b>	14,594,516
Effect of changes in foreign exchange rates	<b>1,741</b>	5,299
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>45,380,413</b>	21,947,939
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>		
represented by bank balances and cash	<b>25,725,201</b>	36,547,754

# Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

## 1. CORPORATE INFORMATION

China Hongqiao Group Limited (the "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 interim 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 principally engaged in the business of manufacture and sales of aluminum products.

The interim condensed consolidated financial information 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 a subsidiary established in Indonesia is denoted in Indonesia Rupiah ("IDR") and the functional currency of subsidiaries established in Singapore and the Republic of Guinea are denoted in United States Dollar ("US\$").

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB"). This interim condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the IASB.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018 except as disclosed below.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset or disposal group must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### Non-current assets held for sale (continued)

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning on 1 January 2019.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

The adoption of IFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial information. The new accounting policies are set out in note 4 below. The application of other new and amendments to IFRSs in the current interim period has had no material effects on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial information.

#### 3.1 Impacts on adoption of IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 4. The Group has applied IFRS 16 *Leases* modified retrospectively and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 *Leases*.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of IFRS 16 on the Group's interim condensed consolidated financial information are described below.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Impacts on adoption of IFRS 16 Leases (continued)

##### The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.57%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

##### The Group as lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor are not different from those under IAS 17.

The following table summarises the impact of transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	Carrying amount previously reported at 31 December 2018 RMB'000 (Audited)	Impact on adoption of IFRS 16 RMB'000	Carrying amount as restated at 1 January 2019 RMB'000 (Unaudited)
Right-of-use assets	(a),(b)	–	5,102,032	5,102,032
Prepaid lease payments	(b)	5,047,468	(5,047,468)	–
Lease liabilities	(a)	–	(54,564)	(54,564)

Notes:

- (a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liabilities of approximately RMB54,564,000.
- (b) Prepaid lease payments of approximately RMB5,047,468,000 which represent the prepayment of rentals for land use rights in the PRC and Indonesia were adjusted to right-of-use assets.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Practical expedients applied

On the date of initial application of IFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*;
- reliance on previous assessments on whether leases are onerous by applying IAS 37 as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### 4. CHANGE IN ACCOUNTING POLICIES

#### Leases

##### Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

##### The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 4. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

#### Leases (continued)

#### The Group as lessee (continued)

##### *Lease liabilities*

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the interim condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 4. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

#### Leases (continued)

##### The Group as lessee (continued)

###### *Right-of-use assets*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment losses on tangible assets and intangible assets" policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

###### *Lease modification*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

##### The Group as lessor

###### *Lease modification*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 5. REVENUE

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

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue from sales of aluminum products		
– molten aluminum alloy	29,268,773	33,365,759
– aluminum alloy ingot	1,159,352	2,584,222
– aluminum fabrication	4,466,496	3,347,640
– alumina products	6,157,040	4,766,056
Steam supply income	378,399	262,893
	<b>41,430,060</b>	44,326,570

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<i>Geographical region</i>		
The PRC	39,429,020	43,182,171
India	640,754	272,263
Europe	296,619	14,212
Malaysia	678,495	597,974
Others	385,172	259,950
Total	<b>41,430,060</b>	44,326,570
<i>Type of customers</i>		
Government related	1,114	2,537
Non-government related	41,428,946	44,324,033
Total	<b>41,430,060</b>	44,326,570
<i>Sales channels</i>		
Direct sales	<b>41,430,060</b>	44,326,570

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of deferred income	9,584	8,126
Bank interest income	44,568	16,742
Loan receivable interest income	–	336,914
Imputed interest on receivables arising from disposal of a subsidiary	36,715	–
Other interest income	92,168	44,719
Rental income	6,207	6,485
Gain from sales of scraps materials	176,837	88,315
Gain from sales of slag of carbon anode blocks	427,339	465,558
Gain on bargain purchase (note 33)	3,282	–
Gain on disposal of property, plant and equipment	89,840	168
Gain on disposal of investment properties	241,587	–
Investment gains from derivatives	2,538	2,616
Reversal of impairment of property, plant and equipment	658,974	–
Reversal of impairment of other receivables	13,335	–
Reversal of impairment of inventories	43,025	45,462
Others	34,233	31,595
	<b>1,880,232</b>	<b>1,046,700</b>

### 7. OTHER EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respect of trade receivables	15,166	16,817
Impairment loss recognised in respect of other receivables	259	–
Impairment loss recognised in respect of property, plant and equipment	1,174,743	–
Impairment loss recognised in respect of goodwill	–	508,486
Write-down of inventories to net realisable value	30,899	5,855
	<b>1,221,067</b>	<b>531,158</b>

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 8. INCOME TAX EXPENSES

The Group calculates the period income tax expenses using the tax rates that would be applicable to the expected total annual earnings. The major components of income tax expenses in the condensed consolidated statement of profit or loss and other comprehensive income are:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax:		
– Hong Kong Profits Tax	47,350	–
– Indonesia Corporate Tax	71,638	–
– PRC Enterprise Income Tax	1,214,194	1,125,477
	<b>1,333,182</b>	1,125,477
Over provision in previous years:		
– Hong Kong Profits Tax	(6,166)	–
– PRC Enterprise Income Tax	–	(3,926)
	<b>(6,166)</b>	(3,926)
Deferred taxation	<b>(227,346)</b>	16,611
Total income tax expenses	<b>1,099,670</b>	1,138,162

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest expenses on bank borrowings	904,049	582,703
Interest expenses on other borrowing	49,171	–
Interest expenses on short-term debentures and notes	46,807	87,766
Interest expenses on medium-term debentures and bonds	1,747,337	1,126,972
Interest expenses on guaranteed notes	73,303	87,350
Interest expenses on convertible bonds	101,367	98,053
Interest expenses on lease liabilities	1,542	–
<b>Total finance costs</b>	<b>2,923,576</b>	<b>1,982,844</b>
Amortisation of prepaid lease payments	–	48,686
Amortisation of intangible assets	2,599	3,722
Cost of inventories	33,366,851	37,344,330
Depreciation for property, plant and equipment	3,576,607	3,648,444
Depreciation for investment properties	1,121	3,829
Depreciation of right-of use assets	63,863	–
Foreign exchange loss	30,173	428,949
Research and development expenses	327,852	138
Gross rental income from investment properties	6,207	6,485
Less: direct operating expenses incurred for investment properties that generated rental income during the period	(99)	(110)
	<b>6,108</b>	<b>6,375</b>

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 10. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period	<b>1,807,631</b>	1,697,064

During the current period, a final dividend of HK24 cents per share in respect of the year ended 31 December 2018 has been approved and paid.

During the six months ended 30 June 2018, a final dividend of HK20 cents per share in respect of the year ended 31 December 2017 has been approved and paid. During the six months ended 30 June 2018, the Company also paid a special dividend of HK20 cents per share and final dividend of HK27 cents per share in respect of the year ended 31 December 2016.

### 11. 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:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	<b>2,477,037</b>	1,804,265
Effect of dilutive potential ordinary shares:		
Interest expense on liability component of convertible bonds	–	98,053
Changes in fair values of derivatives component of convertible bonds	–	(78,920)
Exchange loss on translation of liability component of convertible bonds	–	29,024
Earnings for the purpose of diluted earnings per share	<b>2,477,037</b>	1,852,422

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 11. EARNINGS PER SHARE (CONTINUED)

	Six months ended 30 June	
	2019 '000 (Unaudited)	2018 '000 (Unaudited)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>8,630,209</b>	8,693,664
Effect of dilutive potential ordinary shares:		
Convertible bonds	-	256,804
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>8,630,209</b>	8,950,468

The computation of diluted earnings per share for the six months ended 30 June 2019 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

### 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group purchased property, plant and equipment approximately RMB2,071,125,000 (six months ended 30 June 2018: approximately RMB679,518,000), excluding property, plant and equipment acquired from new acquired subsidiaries with carrying amount of approximately RMB421,600,000 (six months ended 30 June 2018: nil), transferred from construction in progress approximately RMB3,188,327,000 (six months ended 30 June 2018: approximately RMB266,072,000), transferred to held for sale with carrying amount of approximately RMB530,973,000 and disposed plant and machinery and motor vehicles with carrying amount of approximately RMB149,474,000 (six months ended 30 June 2018: RMB99,821,000).

During the six months ended 30 June 2019, the Group spent approximately RMB1,423,525,000 (six months ended 30 June 2018: RMB467,808,000) on the construction of its new product lines and power plant.

The depreciation of the Group for the six months ended 30 June 2019 is approximately RMB3,576,607,000 (six months ended 30 June 2018: RMB3,648,444,000).

During the six months ended 30 June 2019, due to the relocation of production capacities programme and the coal consumption reduction alternative work programme introduced by the relevant governmental regulations, the directors of the Company have suspended certain property, plant and equipment and conducted a review of the Group's property, plant and equipment and determined that a number of those assets were impaired. Accordingly, impairment loss of RMB1,174,743,000 (six months ended 30 June 2018: nil) have been recognised in respect of the Group's property, plant and equipment. The recoverable amounts of relevant property, plant and equipment was determined on the basis of their value-in-use.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the six months ended 30 June 2019, due to the relocation of production capacities programme, certain of previous impaired property, plant and equipment resumed its production and certain property, plant and equipment previously impaired will be sold within twelve months from the end of the current interim reporting period, the directors of the Company conducted a review of the related property, plant and equipment and determined that a reversal of provision for impairment loss on relevant property, plant and equipment should be recognised. Accordingly, a reversal of provision for impairment of approximately RMB658,974,000 was recognised (six months ended 30 June 2018: nil).

At 30 June 2019, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB11,818,727,000 (31 December 2018: RMB9,282,147,000) were pledged to secure bank borrowings of the Group (note 35).

Buildings with carrying amount of RMB5,026,162,000 (31 December 2018: RMB5,189,424,000) located in the PRC are in the process of obtaining the property certificates.

### 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

#### (i) Right-of-use assets

Upon adoption of IFRS 16, on 1 January 2019, the Group recognised right-of-use assets of approximately RMB5,102,032,000 in respect of the leased properties (note 3). As at 30 June 2019, the carrying amounts of right-of-use assets were approximately RMB5,142,428,000 in respect of the leased properties.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for office premises, factories, crew boats, vessels and crane barges. The leases contain minimum lease payment terms during the contract period. On lease commencement, the Group recognised right-of-use assets of approximately RMB42,989,000.

As at 30 June 2019, certain of the Group's right-of-use assets with a net carrying amount of approximately RMB304,653,000 were pledged to secure bank borrowings of the Group (note 35).

#### (ii) Lease liabilities

Upon adoption of IFRS 16, on 1 January 2019, the Group recognised lease liabilities of approximately RMB54,564,000 (note 3). As at 30 June 2019, the carrying amount of lease liabilities was approximately RMB90,825,000.

During the six months ended 30 June 2019, the Group entered into a number of new lease agreements for office premises, factories, crew boats, vessels and crane barges and recognised lease liabilities of approximately RMB42,989,000.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

#### (iii) Amount recognised in profit or loss

	For the six months ended 30 June 2019 RMB'000
Depreciation of right-of-use assets	63,863
Interest expense on lease liabilities	1,542
Expense relating to short-term leases	160

#### (iv) Other

At 30 June 2019, the Group is committed to RMB768,000 for short-term leases.

### 14. INTEREST IN ASSOCIATES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Costs of investments in associates	2,373,140	123,140
Share of profits and other comprehensive income	1,396,299	1,017,309
	<b>3,769,439</b>	1,140,449
Loans to associates	2,756,217	754,952
	<b>6,525,656</b>	1,895,401

The loans to associates of US\$110,000,000 (31 December 2018: US\$110,000,000) are unsecured, interest-free and repayable after one year.

Remaining balance of loans to associates (31 December 2018: nil) are secured by plant and equipment of the associate, interest bearing of 6% per annum and repayable on 20 June 2021.

The Group's payable balances with the associates are disclosed in note 37.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 15. GOODWILL

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
<b>Cost</b>		
At beginning and at the end of the financial period/year	<b>1,934,457</b>	1,934,457
<b>Accumulated impairment losses</b>		
At beginning and end of the financial period/year	<b>1,325,639</b>	668,694
Impairment loss recognised during the period/year	–	656,945
At the end of the financial period/year	<b>1,325,639</b>	1,325,639
<b>Carrying amount</b>		
At the end of the financial period/year	<b>608,818</b>	608,818

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 2018, the Group recognised an impairment loss of approximately RMB656,945,000 in relation to goodwill arising on acquisition of Shandong Hongchuang Aluminum Industry Holding Company Limited ("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. No impairment loss have been recognised during the six months ended 30 June 2019.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 16. FINANCIAL ASSET AT FVTOCI

Financial asset at FVTOCI comprise:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Equity instrument as at FVTOCI – Listed	<b>806,374</b>	908,170

The fair value of this investment is disclosed in note 32.

Investments in listed equity securities represent the Group's investment in Bank of Jinzhou, a company listed in Hong Kong and engaged in the provision of corporate and retail deposits, loans and advances, payment and settlement services, finance leasing as well as other banking services as approved by the China Banking Regulatory Commission. This investment in equity instrument is not held for trading. Instead, it is held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate this investment in equity instrument as at FVTOCI as they believe that recognising short-term fluctuations in this investment's fair value in profit or loss would not be consistent with the Group's strategy of holding this investment for long-term purposes and realising its performance potential in the long run.

### 17. INVENTORIES

At 30 June 2019, the carrying amounts of the Group's inventories were net of impairment provision of approximately RMB73,420,000 (31 December 2018: RMB85,546,000).

During the period, inventories previously impaired were sold at profit. As a result, a reversal of provision of approximately RMB43,025,000 (six months ended 30 June 2018: RMB45,462,000) has been recognised and included in other income and gains in the current year.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 18. TRADE RECEIVABLES

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Trade receivables	<b>10,353,510</b>	6,757,303
Less: allowance for impairment losses	<b>(21,891)</b>	(6,725)
	<b>10,331,619</b>	6,750,578

The Group allows an average credit period of 90 to 120 days (31 December 2018: 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.

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Within 3 months	<b>9,497,898</b>	6,304,751
3-12 months	<b>789,409</b>	438,473
12-24 months	<b>44,065</b>	7,076
24-36 months	<b>247</b>	278
	<b>10,331,619</b>	6,750,578

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 19. BILLS RECEIVABLES

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

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Within 3 months	<b>5,702,482</b>	6,319,777
3 to 6 months	<b>4,686,418</b>	5,046,349
Over 6 months	<b>2,000</b>	360,500
	<b>10,390,900</b>	11,726,626

### 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 condensed 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 condensed consolidated statement of financial position.

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Bills receivable endorsed to suppliers with full recourse (note)		
Carrying amount of transferred assets	<b>10,182,475</b>	11,681,840
Carrying amount of trade payables	<b>(9,559,479)</b>	(11,050,300)
Carrying amount of other payables	<b>(622,996)</b>	(631,540)
Net position	<b>-</b>	-

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 condensed consolidated statement of financial position.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 20. PREPAYMENTS AND OTHER RECEIVABLES

The balance consists of prepayments and other receivables of:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Prepayments to suppliers	1,571,352	1,386,528
Prepayments to an associate (note)	6,000,000	–
Other receivables	2,762,984	3,399,393
	<b>10,334,336</b>	4,785,921
Less: allowance for impairment losses	<b>(25,382)</b>	(38,458)
	<b>10,308,954</b>	4,747,463

Note:

On 21 June 2019, the Group entered into an electricity procurement agreement with an associate of the Group, pursuant to which the Group agreed to provide a prepayment to the associate of not less than RMB6,000,000,000 for the supply of electricity.

### 21. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Cash and bank balances	25,725,201	45,380,413
Time deposits	1,500,791	1,256,474
	<b>27,225,992</b>	46,636,887
Less:		
Restricted bank deposits:		
– pledged for bills payable	(1,000,000)	(1,000,000)
– pledged for issuance of letter of credit	(475,791)	(231,474)
– pledged for guarantee issued	(25,000)	(25,000)
Cash and cash equivalents	<b>25,725,201</b>	45,380,413



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

- a) On 28 February 2019, Shandong Hongchuang Aluminum Holding Co., Ltd \*山東宏創鋁業控股股份有限公司 (“Shandong Hongchuang”), an indirect non wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with 博興縣自然資源和規劃局 (“規劃局”), an independent third party, to dispose of certain of its investment properties in Boxing District (“the Disposal A”). The consideration will be received at the beginning of 2020.

The Disposal A is expected to be completed within twelve months from the end of the current interim reporting period and have been classified as assets held for sales which are separately presented in the interim condensed consolidated statement of financial position. The sales proceeds are expected to exceed the net carrying amounts of the relevant assets and, accordingly, no impairment has been recognised. The Disposal A was negotiated under arm’s length basis and approved by the board of directors’ of the subsidiary.

Major classes of assets as at the end of the current interim period are as follows:

	<b>As at 30 June 2019 RMB’000 (Unaudited)</b>
Investment properties	8,776
Assets classified as held for sale	8,776



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

- b) On 1 May 2019, Binzhou City Zhanhua District Huihong New Material Co., Ltd. \* (濱州市沾化區匯宏新材料有限公司), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, to dispose of certain of its construction in process of property, plant and equipment in Binzhou City Zhanhua District (the "Disposal B"), at a consideration of RMB600,000,000. RMB50,000,000 of the consideration was received during the period. The remaining balance of RMB550,000,000 will be received at the end of 2019.

The Disposal B are expected to be completed within twelve months from the end of the current interim reporting period and is therefore classified as assets held for sales in the interim condensed consolidated statement of financial position. The sales proceeds are expected to exceed the net carrying amounts of the relevant assets and accordingly, no impairment has been recognised. The Disposal B was negotiated under arm's length basis and approved by the board of directors' of the subsidiary.

Major classes of assets as at the end of the current interim period are as follows:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>
Property, plant and equipment	<b>530,973</b>
Assets classified as held for sale	<b>530,973</b>

\* The English names of the above companies are for reference only

### 23. TRADE AND BILLS PAYABLES

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Trade payables	<b>11,722,594</b>	14,661,437
Bills payable	<b>2,049,745</b>	2,000,000
	<b>13,772,339</b>	16,661,437

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 23. TRADE AND BILLS PAYABLES (CONTINUED)

Included in trade payables are creditors with the following ageing analysis presented based on the invoice date at the end of the reporting period:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Within 6 months	<b>11,455,388</b>	14,333,933
6-12 months	<b>201,323</b>	279,933
1-2 years	<b>23,957</b>	7,330
More than 2 years	<b>41,926</b>	40,241
	<b>11,722,594</b>	14,661,437

The average credit period on purchases of goods is six months. Bills payable are bills of acceptance with maturity of less than one year.

### 24. BANK BORROWINGS

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
<b>Current</b>		
Secured bank borrowings	<b>1,465,040</b>	873,104
Unsecured bank borrowings	<b>22,727,337</b>	18,060,631
	<b>24,192,377</b>	18,933,735
<b>Non-current</b>		
Secured bank borrowings	<b>5,444,200</b>	8,146,613
Unsecured bank borrowings	<b>2,429,608</b>	3,117,190
	<b>7,873,808</b>	11,263,803
	<b>32,066,185</b>	30,197,538

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 24. BANK BORROWINGS (CONTINUED)

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>24,192,377</b>	18,933,735
In the second year	<b>5,962,355</b>	8,482,516
In the third to fifth years, inclusive	<b>1,911,453</b>	2,781,287
	<b>32,066,185</b>	30,197,538

Fixed interest rate borrowings with an aggregate carrying amount of approximately RMB6,446,693,000 (31 December 2018: RMB4,723,090,000) ranged from 3.00% to 7.50% (31 December 2018: 2.70% to 7.50%) per annum as at 30 June 2019.

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 balance of bank borrowings which are guaranteed by a related party was set out in note 37(c).

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 25. OTHER BORROWING

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Other borrowing, unsecured	<b>1,370,008</b>	1,366,569

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreement):

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
After one year but within two years	<b>1,370,008</b>	1,366,569

The interest rate of the other borrowing of US\$200,000,000 (31 December 2018: US\$200,000,000) is fixed at 7.50% per annum (31 December 2018: 7.50% per annum).

### 26. SHORT-TERM DEBENTURES AND NOTES

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Short-term debentures and notes	<b>–</b>	4,000,000

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 26. SHORT-TERM DEBENTURES AND NOTES (CONTINUED)

The details of the unsecured short-term debentures and notes issued during the reporting period are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Interest rate	Date of maturity
Short-term debentures	5 February 2018	1,000,000	6.00%	7 February 2019
Short-term debentures	14 March 2018	1,000,000	6.25%	16 March 2019
Short-term debentures	22 March 2018	1,000,000	6.20%	26 March 2019
Short-term debentures	2 April 2018	1,000,000	6.50%	4 April 2019

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.

### 27. MEDIUM-TERM DEBENTURES AND BONDS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Medium-term debentures and bonds – due within one year	2,974,000	1,752,756
Medium-term debentures and bonds – due after one year	40,516,509	41,077,258
	<b>43,490,509</b>	42,830,014



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 27. MEDIUM-TERM DEBENTURES AND BONDS (CONTINUED)

The details of the medium-term debentures and bonds issued and outstanding as at 30 June 2019 and 31 December 2018 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	14 October 2015	1,000,000	5.50%	5.86%	14 October 2020
Medium-term debentures B	15 December 2015	500,000	5.20%	5.88%	15 December 2020
Medium-term debentures C	25 October 2016	1,000,000	3.87%	4.21%	16 October 2021
Medium-term debentures D	3 November 2016	2,000,000	3.84%	4.18%	4 November 2021
Medium-term debentures E	5 January 2017	1,000,000	5.20%	5.55%	6 January 2022
Medium-term debentures F	10 January 2017	1,000,000	5.20%	5.55%	11 January 2022
Medium-term debentures G	17 January 2017	1,000,000	5.20%	5.55%	19 January 2022
Medium-term debentures H	2 March 2018	1,000,000	7.50%	7.85%	6 March 2021
Medium-term debentures I	18 April 2018	1,000,000	7.30%	7.65%	19 April 2021
Medium-term debentures J	20 April 2018	1,300,000	6.75%	7.09%	23 April 2021
Medium-term debentures K	25 April 2018	1,000,000	6.73%	7.07%	27 April 2021
Medium-term debentures L	26 April 2018	1,000,000	6.90%	7.24%	27 April 2021
Medium-term debentures M	24 May 2018	1,000,000	7.47%	7.82%	25 May 2021
Medium-term debentures N	13 August 2018	1,000,000	7.40%	7.67%	16 August 2021
Medium-term debentures O	23 August 2018	500,000	7.47%	7.75%	27 August 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	7.30% (31 December 2018: 4.10%)	7.43% (31 December 2018: 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	7.00% (31 December 2018: 4.50%)	7.12% (31 December 2018: 4.73%)	27 January 2021
Enterprise bonds G	24 February 2016	1,200,000	6.70% (31 December 2018: 4.04%)	6.81% (31 December 2018: 4.27%)	24 February 2021
Enterprise bonds H	10 March 2016	3,500,000	6.50% (31 December 2018: 4.27%)	6.61% (31 December 2018: 4.50%)	10 March 2021

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 27. MEDIUM-TERM DEBENTURES AND BONDS (CONTINUED)

Debentures	Date of issue	Principal amount RMB'000	Nominal interest rate	Effective interest Rate	Date of maturity
Enterprise bonds I	10 March 2016	500,000	4.83%	5.06%	10 March 2021
Enterprise bonds J	22 March 2016	2,000,000	6.30%	6.40%	22 March 2021
			(31 December 2018: 4.20%)	(31 December 2018: 4.43%)	
Enterprise bonds K	17 October 2016	7,800,000	4.00%	4.16%	17 October 2023
Enterprise bonds L	26 March 2019	2,000,000	6.00%	6.15%	26 March 2024
Private placement enterprise bond A	2 June 2016	1,758,000	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

\* On 11 July 2019, the Group has redeemed the private placement enterprises bond B for RMB2,974,000,000 together with interest accrued up to that date.

The total medium-term debentures and bonds are repayable as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within one year	2,974,000	1,752,756
In the second to fifth year	40,516,509	33,330,745
Over five years	–	7,746,513
	<b>43,490,509</b>	42,830,014



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 28. GUARANTEED NOTES

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Current liabilities	–	3,078,664

On 17 April 2018, the Company issued 6.85% guaranteed notes with the aggregate principal amount of US\$450,000,000 (equivalent to approximately RMB2,865,150,000) (the “2019 Guaranteed Notes”) which are guaranteed by certain subsidiaries of the Group. The 2019 Guaranteed Notes mature on 22 April 2019. The 2019 Guaranteed Notes was redeemed during the period.

### 29. CONVERTIBLE BONDS

On 28 November 2017, the Company issued convertible bonds (“CBs”) bearing interest at 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.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 29. CONVERTIBLE BONDS (CONTINUED)

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:

	Liability component of CBs RMB'000	Derivatives component of CBs RMB'000	Total RMB'000
As at 1 January 2018	1,095,225	991,660	2,086,885
Changes in fair values	–	(397,683)	(397,683)
Effective interest expenses	193,010	–	193,010
Interest paid	(94,039)	–	(94,039)
Conversion into shares of the Company (note 30 (b))	(248,367)	(224,881)	(473,248)
Exchange translation	66,223	46,099	112,322
As at 31 December 2018	1,012,052	415,195	1,427,247
Changes in fair values	–	<b>24,950</b>	<b>24,950</b>
Effective interest expenses	<b>101,367</b>	–	<b>101,367</b>
Interest paid	<b>(41,913)</b>	–	<b>(41,913)</b>
Exchange translation	<b>(1,638)</b>	<b>(476)</b>	<b>(2,114)</b>
As at 30 June 2019	<b>1,069,868</b>	<b>439,669</b>	<b>1,509,537</b>

On 25 January 2018, 70,544,156 ordinary shares of the Company were issued as a result of the conversion of CBs with principal amount of US\$73,600,000. No redemption, purchase or cancellation by the Company has been made in respect of the CBs during the six months ended 30 June 2019.

On 7 February 2018, as a result of the Company's declaration of dividend, the conversion price of the CBs was adjusted from HK\$8.16 to HK\$7.71 per share and on 12 June 2018, as a result of the Company's declaration of dividend, the conversion price of the CBs was further adjusted from HK\$7.71 to HK\$7.53 per share. Save for this alteration, all other terms and conditions of the outstanding CBs remained unchanged. The relevant ordinary resolution was duly passed at the special general meeting.

On 17 June 2019, as a result of the Company's declaration of dividend, the conversion price of the CBs was adjusted from HK\$7.53 to HK\$7.21 per share. Save for this alteration, all other terms and conditions of the outstanding CBs remained unchanged. The relevant ordinary resolution was duly passed at the special general meeting.

As at 30 June 2019, the principal amount of the CBs that remained outstanding amounted to US\$246,400,000 (31 December 2018: US\$246,400,000) of which a maximum of 267,287,611 (31 December 2018: 255,928,775) 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 7 February 2018, 13 July 2018 and 17 June 2019.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 29. CONVERTIBLE BONDS (CONTINUED)

At 31 December 2018 and 30 June 2019, 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 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:

	<b>As at 30 June 2019 (Unaudited)</b>	As at 31 December 2018 (Audited)
Share price	<b>HK\$5.51</b>	HK\$4.45
Conversion price	<b>HK\$7.21</b>	HK\$7.53
Expected volatility	<b>49.64%</b>	55.54%
Expected life	<b>3.41 years</b>	3.91 years
Risk free rate	<b>1.70%</b>	2.45%
Expected dividend yield	<b>4.3%</b>	4.4%

### 30. ISSUED CAPITAL

	<b>Number of shares</b>		<b>Share Capital</b>	
	<b>30 June 2019</b>	31 December 2018	<b>30 June 2019</b>	31 December 2018
			US\$	US\$
<b>Authorised:</b>				
Ordinary shares of US\$0.01 each	<b>10,000,000,000</b>	10,000,000,000	<b>100,000,000</b>	100,000,000
	<b>30 June 2019</b>	31 December 2018	<b>30 June 2019</b>	31 December 2018
			US\$	US\$
<b>Issued and fully paid:</b>				
Ordinary shares of US\$0.01 each	<b>8,570,852,349</b>	8,675,394,849	<b>85,708,523</b>	86,753,948

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 30. ISSUED CAPITAL (CONTINUED)

	Number of shares	Share Capital RMB'000
<b>Issued and fully paid:</b>		
At 1 January 2018	8,057,888,193	526,966
Issue of shares upon share subscription (note (a))	650,000,000	41,710
Issue of shares upon conversion of CBs (note (b))	70,544,156	4,495
Shares repurchased and cancelled	(103,037,500)	(6,999)
At 31 December 2018 and 1 January 2019	8,675,394,849	566,172
Shares repurchased and cancelled	(104,542,500)	(7,082)
At 30 June 2019	8,570,852,349	559,090

Notes:

- (a) On 23 January 2018, 650,000,000 ordinary shares of US\$0.01 each were issued and allotted at a price of HK\$9.6 per share, raising a total proceeds of approximately RMB5,060,159,000, net of share issue expense of approximately RMB60,822,000.
- (b) During the year ended 31 December 2018, CBs with principal amount US\$73,600,000 was converted into 70,544,156 ordinary shares of the Company at par at the conversion price of HK\$8.16 per ordinary share.

The Company does not have any share option scheme.

All shares issued rank pari passu in all respects with all shares then in issue.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 30. ISSUED CAPITAL (CONTINUED)

During the current period, 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\$	Share cancelled date
		Highest	Lowest		
		HK\$	HK\$		
14-Jan-19	620,000	4.80	4.79	2,975,000	25-Jan-19
16-Jan-19	2,406,500	5.05	4.95	12,072,000	25-Jan-19
17-Jan-19	1,880,000	5.07	5.05	9,511,000	25-Jan-19
18-Jan-19	1,060,000	5.05	5.04	5,352,000	25-Jan-19
25-Mar-19	8,000,000	5.65	5.39	44,837,000	9-Apr-19
26-Mar-19	8,375,000	5.71	5.62	47,444,000	9-Apr-19
27-Mar-19	6,174,000	5.77	5.61	35,271,000	9-Apr-19
28-Mar-19	10,150,000	5.89	5.78	59,551,000	9-Apr-19
29-Mar-19	9,150,000	5.92	5.74	53,809,000	9-Apr-19
9-Apr-19	4,500,000	6.53	6.20	28,798,000	24-Apr-19
10-Apr-19	4,150,000	6.68	6.49	27,357,000	24-Apr-19
11-Apr-19	8,500,000	6.75	6.61	57,154,000	24-Apr-19
12-Apr-19	7,000,000	6.76	6.57	46,800,000	24-Apr-19
22-May-19	6,423,000	5.50	5.21	34,977,000	3-Jun-19
23-May-19	10,189,000	5.56	5.34	55,917,000	3-Jun-19
24-May-19	3,798,000	5.54	5.49	20,894,000	3-Jun-19
27-May-19	7,517,500	5.51	5.34	41,137,000	19-Jun-19
29-May-19	4,649,500	5.57	5.40	25,589,000	19-Jun-19

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

### 31. RESERVES

#### (a) Capital reserve

Capital reserve represents (i) the effect of the group reorganization completed in March 2010 and (ii) deemed capital contribution from its equity holders and (iii) amount of consideration paid by Shandong Hongqiao New Material Co., Ltd in excess of the net book value of Chongqing Weiqiao Financial Factoring Co., Ltd. acquired from Weiqiao Chuangye Group Company Limited on 22 January 2018.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 31. RESERVES (CONTINUED)

#### (b) Statutory surplus reserve

In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China ("PRC"), those subsidiaries are required to transfer 5% to 10% of the profit after taxation reported under the relevant accounting policies and financial regulations in the PRC 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.

#### (d) Investment revaluation reserve

Investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of investments in equity instruments as at FVTOCI.

### 32. FAIR VALUE DISCLOSURES

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 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.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 32. FAIR VALUE DISCLOSURES (CONTINUED)

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 30 June 2019 and 31 December 2018. The valuation techniques and inputs used in the fair value measurements of each financial instruments on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		30/6/2019 RMB'000	31/12/2018 RMB'000	
Financial asset at FVTOCI	Level 3 (31 December 2018: level 1)	<b>806,374</b>	908,170	Market approach – by reference to the asset with identical or similar assets in the market. Key inputs: price-to-book ratio of 0.92. (31 December 2018: Quoted bid prices in an active market)
Financial asset at fair value through profit or loss	Level 1	<b>54</b>	–	Quoted bid prices in an active market
Redemption option derivative of CBs	Level 3	<b>109,665</b>	161,740	Binomial option pricing model: Key inputs: risk free rate of 1.70% (31 December 2018: 2.45%), and effective interest rate of 8.67% (31 December 2018: 8.97%) and volatility of 49.64% (31 December 2018: 55.54%)
Conversion option derivative of CBs	Level 3	<b>330,004</b>	253,455	Binomial option pricing model: Key inputs: risk free rate of 1.70% (31 December 2018: 2.45%), and effective interest rate of 8.67% (31 December 2018: 8.97%) and volatility of 49.64% (31 December 2018: 55.54%)

#### 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.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 33. ACQUISITION OF A SUBSIDIARY

On 31 March 2019, the Group acquired 100% of the equity interest in 濱州鴻博鋁業科技有限公司 (“鴻博鋁業”) from 博興縣瑞豐鋁板有限公司, an independent third party, for a consideration of approximately RMB147,666,000. Approximately RMB36,666,000 of the consideration has been paid during current period. The remaining balances of RMB55,500,000 and RMB55,500,000 will be settled on 31 December 2019 and 30 June 2020 respectively. This acquisition has been accounted for using the acquisition method. The amount of bargain purchase arising as a result of the acquisition was approximately RMB3,282,000. 鴻博鋁業 is engaged in the manufacture and sales of aluminum fabrication. 鴻博鋁業 was acquired so as to continue the expansion of the Group's aluminum products operations.

#### Consideration of the acquisition:

	RMB'000
Cash consideration	147,666
Less: cash consideration paid during the period	(36,666)
Consideration payable (included in other payables)	111,000

#### Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	421,600
Intangible assets	6
Inventories	245,658
Trade receivables	132,241
Bill receivables	7,715
Prepayments and other receivables	99,661
Cash and cash equivalents	8,766
Trade payables	(328,862)
Other payables and accruals	(435,745)
Income tax payable	(92)
	150,948

Acquisition-related costs amounting to RMB240,000 have been excluded from the consideration transferred and have been recognised as an expense in the current period, within the administrative expenses in the condensed consolidated statement of profit or loss and other comprehensive income.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 33. ACQUISITION OF A SUBSIDIARY (CONTINUED)

#### Gain on bargain purchase:

	RMB'000
Consideration of the acquisition	147,666
Less: net assets acquired	(150,948)
Gain on bargain purchase	3,282

#### Net cash outflow arising on acquisition:

	RMB'000
Cash consideration	147,666
Less: cash and cash equivalent acquired	(8,766)
consideration payable	(111,000)
Net cash outflow on acquisition	27,900

Included in the profit for the period is approximately a loss of approximately RMB20,927,000, attributable to the additional business generated by 鴻博鋁業. Revenue for the six months ended 30 June 2019 includes approximately RMB459,460,000 generated from 鴻博鋁業.

Had the acquisition been completed on 1 January 2019, total revenue of the Group for the six months ended 30 June 2019 would have been approximately RMB41,746,097,000 and profit for the period would have been approximately RMB2,746,475,000. 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 2019, nor is it intended to be a projection of future results.

### 34. DISPOSAL OF A SUBSIDIARY

On 30 June 2018, 濱州市沾化區匯宏新材料有限公司 ("Zhanhua Huihong New Material"), an indirect wholly-owned subsidiary of the Company, disposed of the entire issued share capital of 濱州市沾化區茂宏新材料有限公司 ("Zhanhua Maohong New Material"), a company directly wholly-owned by Zhanhua Huihong New Material, to an independent third party at a cash consideration of RMB2,950,000,000. RMB590,000,000 of the consideration was received during the six months ended 30 June 2018. The remaining balance of RMB885,000,000, RMB590,000,000 and RMB885,000,000 will be settled on 31 December 2018, 30 June 2019 and 31 December 2019 respectively. The remaining balances in aggregate of RMB2,360,000,000 is guaranteed by the acquirer's associated company which also is one of the major suppliers of the Group. The fair value of the consideration is assessed at net present value and discounted by weighted averaged borrowing costs of the Group.



## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 34. DISPOSAL OF A SUBSIDIARY (CONTINUED)

#### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	3,182,302
Other receivables	298,828
Cash and cash equivalents	1,000
Net assets disposed of	3,482,130

#### Loss on disposal of a subsidiary

	RMB'000
Consideration received and receivable	2,833,358
Net assets disposed of	(3,482,130)
Loss on disposal of a subsidiary	(648,772)

#### Consideration of the disposal

	RMB'000
Consideration of the disposal	2,833,358
Imputed interest on unsettled consideration	95,431
Less: cash consideration received	(2,065,000)
Consideration receivable (included in other receivables)	863,789
Analysed for reporting purposes as:	
Current assets	863,789

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 34. DISPOSAL OF A SUBSIDIARY (CONTINUED)

#### Net cash inflow arising on disposal

	As at 30 June 2018 RMB'000
Cash consideration received	590,000
Less: cash and cash equivalents disposed of	(1,000)
	<u>589,000</u>

### 35. PLEDGE OF ASSETS

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

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Restricted bank deposits (note 21)	<b>1,500,791</b>	1,256,474
Property, plant and equipment (note 12)	<b>11,818,727</b>	9,282,147
Right-of-use assets (i.e. land use right) (note 13)	<b>304,653</b>	–

### 36. COMMITMENTS

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Contracted for but not provided		
– Capital investment	<b>14,000</b>	14,000
– property, plant and equipment	<b>2,253,982</b>	794,563
	<b>2,267,982</b>	808,563

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere of the notes to the interim condensed consolidated financial information, the Group has the following related parties transactions.

(a) During the six months ended 30 June 2019, 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 ("Weiqiao Chuangye") (note i)	note iii
濱州魏橋科技工業園有限公司 ("Binzhou Industrial Park") (note i)	Controlled by Weiqiao Chuangye
山東銘宏紡織科技有限公司 ("Ming Hong Textile") (note i)	Controlled by Weiqiao Chuangye
鄒平魏橋再生資源利用有限公司 ("Zouping Weiqiao") (note i)	Controlled by Weiqiao Chuangye
凱斯曼秦皇島汽車零部件製造有限公司 ("Caseman")	Controlled by CITIC Group Corporation (note ii)
中信信託有限責任公司 ("中信信託")	Controlled by CITIC Group Corporation (note ii)
China CITIC Bank International ("CITIC Bank")	Controlled by CITIC Group Corporation (note ii)
中信銀行股份有限公司 ("中信銀行")	Controlled by CITIC Group Corporation (note ii)
濱州市公建投資開發有限公司 ("濱州投資")	Controlled by Weiqiao Chuangye
濱州市北海魏橋固廢處置有限公司 ("濱州固廢處置")	Controlled by Weiqiao Chuangye
山東瑞信招標有限公司 ("山東瑞信")	Controlled by Weiqiao Chuangye
PT. Harita Jayaraya ("Harita Jayaraya")	note iv
PT. Lima Srikandi Jaya	Controlled by Harita Jayaraya
PT. Mitra Kemakmuran Line	Controlled by Harita Jayaraya
PT. Antar Sarana Rekasa	Controlled by Harita Jayaraya
沾化金沙供水有限公司 ("Jinsha Water Supply") (note i)	An associate of Weiqiao Chuangye
山東創新炭材料有限公司 ("創新炭材料")	An associate of a wholly-owned subsidiary of the Company
Africa Bauxite Company Ltd ("ABM")	An associate of a wholly-owned subsidiary of the Company
GTS Global Trading Ltd ("GTS")	An associate of a wholly-owned subsidiary of the Company
鄒平濱能能源科技有限公司 ("濱能能源")	An associate of a wholly-owned subsidiary of the Company

Notes:

- The English names of the above companies are for reference only.
- CTI Capital Management Limited and its related company, CNCB (Hong Kong) Investment Limited, currently holding 877,184,826 shares of the Company, representing 10.23% of the total issued shares of the Company, are both indirect subsidiaries of CITIC Group Corporation and therefore CITIC Group Corporation is a connected person of the Group.
- Mr. Zhang Bo, the director of the Company, has a significant non-controlling beneficial interest in Weiqiao Chuangye, and is also the director of Weiqiao Chuangye.
- Harita Jayaraya has a significant non-controlling beneficial interest in PT Well Harvest Winning Alumina Refinery, a subsidiary of the Group.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

During the reporting period, the Group entered into the following transactions with related parties:

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Purchases of water			
– Jinsha Water Supply	(b)	7,418	7,279
– Weiqiao Chuangye	(b)	20,000	–
Industrial waste services expense			
– 濱州固廢處置	(b)	22,913	–
Purchases of bauxite			
– ABM	(a)	–	685,170
– GTS	(a)	7,878,872	2,908,823
Purchases of anode carbon block			
– 創新炭材料	(a)	79,047	–
Sales of steam			
– Binzhou Industrial Park	(b)	8,208	13,031
– Ming Hong Textile	(b)	1,835	2,516
– 濱州投資	(a)	12,787	13,252
Sales of electricity			
– 創新炭材料	(a)	1,159	525
– 濱州固廢處置	(a)	–	91
Sales of molten aluminum alloy			
– Caseman	(b)	1,347,470	–
Legal and professional fee			
– 山東瑞信	(a)	2,621	141

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

During the reporting period, the Group entered into the following transactions with related parties: (continued)

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Rental expenses			
– Weiqiao Chuangye	(a)	1,301	1,079
– PT. Lima Srikandi Jaya	(b)	–	–
– Harita Jayaraya	(b)	616	–
– PT. Mitra Kemakmuran Line	(b)	–	–
– PT. Antar Sarana Rekasa	(b)	1,457	–
Bank interest income			
– 中信銀行	(a)	390	–
Interest expenses on bank borrowings			
– CITIC Bank	(a)	78,774	–
– 中信銀行	(a)	186,148	–
Investment and wealth management service			
– 中信信托	(b),(c)	–	–

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.
- (c) An investment and wealth management cooperation framework agreement was entered on 3 December 2018 and no transaction incurred during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

The following balances were outstanding at the end of the reporting period:

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Bank balances		
CITIC Bank (note i)	<b>137,589</b>	93,963
中信銀行 (note ii)	<b>265,828</b>	78,119
Bank borrowings		
CITIC Bank (notes iii and v)	<b>727,618</b>	2,335,191
中信銀行 (notes iv and v)	<b>7,421,156</b>	7,180,666
Loans to associates		
ABM	<b>756,217</b>	754,952
濱能能源	<b>2,000,000</b>	–
Trade payables		
GTS	<b>235,053</b>	264,647
Jinsha Water Supply	<b>1,660</b>	424
Weiqiao Chuangye	<b>5,090</b>	–
創新炭材料	<b>9,649</b>	–
Other payables		
PT. Antar Sarana Rekasa	<b>1,457</b>	–

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

The following balances were outstanding at the end of the reporting period: (continued)

	<b>As at 30 June 2019 RMB'000 (Unaudited)</b>	As at 31 December 2018 RMB'000 (Audited)
Trade receivables		
濱州投資	–	4,563
Ming Hong Textile	66	102
Zouping Weiqiao	–	129
Prepayment		
Jinsha Water Supply	–	7,837
濱能能源	6,000,000	–
Contract liabilities		
Caseman	9,776	17,143

Notes:

- i. The bank balances of CITIC Bank were interest-free.
- ii. The bank balances of 中信銀行 were interest bearing at normal interest rate of 0.3% per annum (31 December 2018: 0.3% per annum).
- iii. The bank borrowings of CITIC Bank were interest bearing at normal interest rates range from 5.9% to 6.5% per annum (31 December 2018: 5.9% to 6.5% per annum).
- iv. The bank borrowings of 中信銀行 was interest bearing at normal interest rate of 4.32% to 5.25% per annum (31 December 2018: 4.32% to 5.25% per annum).
- v. The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are fully exempt from the disclosure requirements in Rule 14A.90 of the Listing Rules as the transaction terms are in normal commercial terms and are not secured by assets of the Group.

## Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Compensation of key management personnel

Key management personnel including directors and senior staff management of the Company.

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Short term employee benefit	2,728	2,791
Retirement benefits scheme contributions	32	40
	<b>2,760</b>	2,831

#### (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:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
	Weiqiao Chuangye	299,000

### 38. EVENTS AFTER THE REPORTING PERIOD

On 15 July 2019, the Company issued a 7.125% guaranteed notes with the aggregate principal amount of US\$300,000,000 (the "2022 Guaranteed Notes") which are guaranteed by certain subsidiaries of the Group and the proceed was received on 23 July 2019. The 2022 Guaranteed Notes will be matured on 22 July 2022 and are listed on the Singapore Exchange Securities Trading Limited. Further details are set out in the announcements of the Company dated 15 July 2019, 16 July 2019 and 25 July 2019.



# 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 (hereinafter collectively referred to as the "Group") set out on pages 61 to 192, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 Hong Kong Institute of Certified Public Accountants (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;
- Estimated allowance on inventories; and
- Impairment of goodwill.

## KEY AUDIT MATTERS (Continued)

### TRANSACTIONS WITH RELATED PARTIES AND DISCLOSURE

Refer to note 51 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.

### ESTIMATED ALLOWANCE ON INVENTORIES

Refer to note 25 to the consolidated financial statements.

#### The key audit matter

As at 31 December 2018, the carrying amount of the inventories was approximately RMB19,805,561,000. The carrying amount of and the allowance for inventories are reviewed by the management periodically, which involves significant degree of judgements and estimates on the net realisable value.

We have identified the carrying amount of the inventories as a key audit matter since the carrying amount of inventories was significant to the consolidated financial statements and the assessment on the allowance for inventories involves significant judgements and estimates made by the management.

#### How the matter was addressed in our audit

Our procedures in relation to the carrying amount of inventories were designed to review the judgements and estimates made by the management on the assessment on the allowance for inventories as at 31 December 2018.

We have reviewed the utilisation of inventories and sales contracts awarded and entered into between the Group and the customers. We have also reviewed the subsequent selling prices of the inventories as at 31 December 2018 and compared with their carrying amounts to consider whether the inventories were stated at lower of their costs or net realisable values.

## Independent Auditor's Report (Continued)

### KEY AUDIT MATTERS (Continued)

#### IMPAIRMENT OF GOODWILL

Refer to note 22 to the consolidated financial statements.

##### The key audit matter

As at 31 December 2018, the carrying amount of goodwill amounted to approximately RMB608,818,000. An impairment loss on goodwill of approximately RMB656,945,000 was recognised for the year ended 31 December 2018.

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 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 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 rates employed in the calculation of value in use by reviewing its basis of calculation and comparing its input data to market sources.

#### 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 HKSAAs 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 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.

## Independent Auditor's Report (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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.

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

22 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Revenue	6	<b>90,194,924</b>	97,941,916
Cost of sales		<b>(74,794,362)</b>	(81,561,674)
Gross profit		<b>15,400,562</b>	16,380,242
Other income and gains	8	<b>2,135,396</b>	2,497,598
Selling and distribution expenses		<b>(371,206)</b>	(270,215)
Administrative expenses		<b>(3,867,211)</b>	(2,083,209)
Other expenses	9	<b>(706,916)</b>	(5,678,876)
Finance costs	10	<b>(4,433,389)</b>	(4,080,942)
Changes in fair value of derivatives	31	<b>397,683</b>	(19,897)
Share of profits of associates	21	<b>429,545</b>	371,989
Loss on disposal of a subsidiary	47	<b>(648,772)</b>	–
Profit before taxation		<b>8,335,692</b>	7,116,690
Income tax expenses	11	<b>(2,549,440)</b>	(1,788,953)
Profit for the year	12	<b>5,786,252</b>	5,327,737
Attributable to:			
Owners of the Company		<b>5,407,422</b>	5,130,064
Non-controlling interests		<b>378,830</b>	197,673
		<b>5,786,252</b>	5,327,737
Other comprehensive income (expense) for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translating foreign operations		<b>147,321</b>	(102,409)
Share of other comprehensive income (expense) of associates		<b>75,295</b>	(38,910)
		<b>222,616</b>	(141,319)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value loss on equity instruments at fair value changes through other comprehensive income		<b>(67,936)</b>	–
Total comprehensive income for the year, net of income tax		<b>5,940,932</b>	5,186,418
Total comprehensive income for the year attributable to			
Owners of the Company		<b>5,504,647</b>	5,044,115
Non-controlling interests		<b>436,285</b>	142,303
		<b>5,940,932</b>	5,186,418
Earnings per share	16		
Basic (RMB)		<b>0.6218</b>	0.6986
Diluted (RMB)		<b>0.5936</b>	0.6952

# Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	17	76,361,390	84,043,112	86,658,504
Intangible assets	18	22,673	13,972	–
Prepaid lease payments	19	4,915,054	3,806,787	3,066,503
Investment properties	20	143,606	150,931	–
Deposits paid for acquisition of property, plant and equipment		206,324	421,144	1,745,089
Deposits paid for acquisition of land		–	14,968	443,390
Deferred tax assets	40	1,865,927	1,784,856	557,322
Interests in associates	21	1,895,401	1,325,328	944,796
Goodwill	22	608,818	1,265,763	311,769
Other financial assets		–	–	14,631
Financial assets at fair value through other comprehensive income	23	908,170	–	–
Available-for-sale investments	24	–	6,000	–
		<b>86,927,363</b>	<b>92,832,861</b>	<b>93,742,004</b>
<b>CURRENT ASSETS</b>				
Prepaid lease payments	19	132,414	85,902	56,152
Inventories	25	19,805,561	15,585,329	17,143,324
Trade receivables	26	6,750,578	2,211,734	363,314
Bills receivables	27	11,726,626	11,912,479	9,721,942
Prepayments, loan and other receivables	28	4,747,463	12,846,097	8,243,113
Other financial assets	29	–	57	13,047
Restricted bank deposits	30	1,256,474	1,262,589	396,808
Cash and cash equivalents	30	45,380,413	21,947,939	13,141,647
		<b>89,799,529</b>	<b>65,852,126</b>	<b>49,079,347</b>
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	32	16,661,437	16,060,100	7,506,386
Other payables and accruals	33	11,840,680	16,347,810	12,378,364
Bank borrowings – due within one year	34	18,933,735	9,529,148	14,310,943
Other financial liabilities		–	–	1,691
Income tax payable		1,460,994	1,163,430	724,632
Short-term debentures and notes	36	4,000,000	3,000,000	11,000,000
Medium-term debentures and bonds – due within one year	37	1,752,756	7,196,185	731,664
Guaranteed notes	38	3,078,664	1,957,399	2,768,436
Deferred income	41	19,450	16,571	31,106
		<b>57,747,716</b>	<b>55,270,643</b>	<b>49,453,222</b>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>32,051,813</b>	<b>10,581,483</b>	<b>(373,875)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>118,979,176</b>	<b>103,414,344</b>	<b>93,368,129</b>

## Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

	Notes	<b>As at 31 December 2018 RMB'000</b>	As at 31 December 2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
<b>NON-CURRENT LIABILITIES</b>				
Bank borrowings – due after one year	34	<b>11,263,803</b>	10,525,603	4,696,770
Other borrowing – due after one year	35	<b>1,366,569</b>	–	–
Liability component of convertible bonds	39	<b>1,012,052</b>	1,095,225	–
Derivatives component of convertible bonds	39	<b>415,195</b>	991,660	–
Deferred tax liabilities	40	<b>670,982</b>	505,397	578,097
Medium-term debentures and bonds – due after one year	37	<b>41,077,258</b>	36,271,871	39,720,060
Guaranteed notes	38	–	–	2,070,436
Deferred income	41	<b>553,820</b>	287,021	114,668
		<b>56,359,679</b>	49,676,777	47,180,031
<b>NET ASSETS</b>				
		<b>62,619,497</b>	53,737,567	46,188,098
<b>CAPITAL AND RESERVES</b>				
Share capital	42	<b>566,172</b>	526,966	474,057
Reserves	43	<b>59,399,189</b>	50,992,750	44,599,143
Equity attributable to owners of the Company		<b>59,965,361</b>	51,519,716	45,073,200
Non-controlling interests		<b>2,654,136</b>	2,217,851	1,114,898
<b>TOTAL EQUITY</b>				
		<b>62,619,497</b>	53,737,567	46,188,098

The consolidated financial statements on pages 61 to 192 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

\_\_\_\_\_  
**Zhang Bo**  
*Director*

\_\_\_\_\_  
**Zhang Ruilian**  
*Director*



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000 (Note 43(d))	Capital reserve RMB'000 (Note 43(a))	Translation reserve RMB'000 (Note 43(c))	Statutory surplus reserve RMB'000 (Note 43(b))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2017, as previously reported	526,966	14,946,158	-	793,349	58,504	5,996,316	28,912,037	51,233,330	1,983,536	53,216,866
Business combination under common control (note 57)	-	-	-	275,000	-	-	11,386	286,386	234,315	520,701
At 1 January 2018 (Restated)	526,966	14,946,158	-	1,068,349	58,504	5,996,316	28,923,423	51,519,716	2,217,851	53,737,567
Profit for the year	-	-	-	-	-	-	5,407,422	5,407,422	378,830	5,786,252
Other comprehensive (expense) income for the year										
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	(67,936)	-	-	-	-	(67,936)	-	(67,936)
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	89,866	-	-	89,866	57,455	147,321
Share of other comprehensive income of associates	-	-	-	-	75,295	-	-	75,295	-	75,295
Total comprehensive (expense) income	-	-	(67,936)	-	165,161	-	5,407,422	5,504,647	436,285	5,940,932
Issue of shares (note 42)	41,710	5,079,271	-	-	-	-	-	5,120,981	-	5,120,981
Transaction costs attributable to issue of shares (note 42)	-	(60,822)	-	-	-	-	-	(60,822)	-	(60,822)
Issue of shares upon conversion of convertible bonds (note 39)	4,495	468,753	-	-	-	-	-	473,248	-	473,248
Shares repurchased and cancelled (note 42)	(6,999)	(603,939)	-	-	-	-	-	(610,938)	-	(610,938)
Transfer of reserves	-	-	-	-	-	1,208,529	(1,208,529)	-	-	-
Consideration for acquisition of a subsidiary under common control (notes 2 and 57)	-	-	-	(284,407)	-	-	-	(284,407)	-	(284,407)
Dividend paid (note 15)	-	-	-	-	-	-	(1,697,064)	(1,697,064)	-	(1,697,064)
	39,206	4,883,263	-	(284,407)	-	1,208,529	(2,905,593)	2,940,998	-	2,940,998
At 31 December 2018	566,172	19,829,421	(67,936)	783,942	223,665	7,204,845	31,425,252	59,965,361	2,654,136	62,619,497

## Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018

	Attributable to owners of the Company								Total
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 43(a))	Translation reserve RMB'000 (Note 43(c))	Statutory surplus reserve RMB'000 (Note 43(b))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 31 December 2016, as previously reported	474,057	10,393,143	793,349	144,453	5,147,142	27,846,168	44,798,312	889,990	45,688,302
Business combination under common control (note 57)	-	-	275,000	-	-	(112)	274,888	224,908	499,796
At 1 January 2017 (Restated)	474,057	10,393,143	1,068,349	144,453	5,147,142	27,846,056	45,073,200	1,114,898	46,188,098
Profit for the year	-	-	-	-	-	5,130,064	5,130,064	197,673	5,327,737
Other comprehensive (expenses) income for the year									
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)	-	5,130,064	5,044,115	142,303	5,186,418
Acquisition of subsidiaries (note 46)	-	-	-	-	-	-	-	960,650	960,650
Shares issued (note 42)	53,454	4,615,950	-	-	-	-	4,669,404	-	4,669,404
Share issue expenses	-	(1,440)	-	-	-	-	(1,440)	-	(1,440)
Dividend paid (note 15)	-	-	-	-	-	(3,203,523)	(3,203,523)	-	(3,203,523)
Transfer of reserves	-	-	-	-	849,174	(849,174)	-	-	-
Shares repurchased and cancelled (note 42)	(545)	(61,495)	-	-	-	-	(62,040)	-	(62,040)
	52,909	4,553,015	-	-	849,174	(4,052,697)	1,402,401	960,650	2,363,051
At 31 December 2017 (Restated)	526,966	14,946,158	1,068,349	58,504	5,996,316	28,923,423	51,519,716	2,217,851	53,737,567

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000 (Restated)
<b>OPERATING ACTIVITIES</b>		
Profit before tax	8,335,692	7,116,690
Adjustments for:		
Interest income	(691,914)	(663,231)
Finance costs	4,433,389	4,080,942
Share of profits of associates	(429,545)	(371,989)
Depreciation	7,175,825	7,781,035
Gain on disposal of property, plant and equipment	(7,292)	(8,096)
(Gain) loss on fair value changes of derivatives	(397,683)	19,897
Investment loss from derivatives	–	19,427
Expenses on issue of convertible bonds	–	10,390
Amortisation of prepaid lease payments	167,827	85,538
Amortisation of intangible assets	2,924	998
Reversal of impairment of inventories	–	(51,235)
Impairment loss recognised in respect of inventories	36,524	149,836
Impairment loss recognised in respect of trade receivables	–	9,064
Impairment loss recognised in respect of other receivables	13,447	22,519
Impairment loss recognised in respect of goodwill	656,945	668,694
Impairment loss recognised in respect of property, plant and equipment	–	4,828,763
Gain on disposal of a subsidiary	648,772	–
Amortisation of deferred income	(17,920)	(12,159)
Operating cash flows before movements in working capital	19,926,991	23,687,083
(Increase) decrease in inventories	(4,147,874)	1,436,791
Increase in trade receivables	(4,531,192)	(1,602,991)
Decrease (increase) in bills receivables	185,853	(2,190,537)
(Increase) decrease in prepayments and other receivables	(787,117)	4,354,239
Increase in restricted bank balance	–	(2,732)
Increase in trade and bills payables	599,345	8,506,782
Increase in other payables and accruals	281,319	834,992
Cash generated from operations	11,527,325	35,023,627
Income tax paid	(2,167,362)	(2,685,609)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>9,359,963</b>	<b>32,338,018</b>

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000 (Restated)
<b>INVESTING ACTIVITIES</b>		
Advance to a supplier	–	(13,057,000)
Purchase of financial assets at FVTOCI	<b>(976,106)</b>	–
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	<b>(4,168,941)</b>	(8,826,305)
Placement of restricted bank deposits	<b>(3,250,738)</b>	(3,073,310)
Net cash outflow arising on acquisition of subsidiaries	–	(568,195)
Net cash inflow arising on disposal of a subsidiary	<b>1,474,000</b>	–
Addition to prepaid land lease payments and deposits for acquisition of land	<b>(1,306,262)</b>	(158,487)
Proceeds from disposal of property, plant and equipment	<b>170,984</b>	41,579
Addition to intangible assets	<b>(11,625)</b>	–
Interest income received	<b>691,914</b>	722,677
Withdrawal of restricted bank deposits	<b>3,256,853</b>	2,210,261
Repayment from a supplier	<b>9,950,000</b>	3,107,000
Proceeds from termination of derivatives	<b>57</b>	4,837
Proceeds from disposal of financial assets at FVTPL	<b>6,000</b>	–
Addition of subsidiary	<b>(284,407)</b>	–
Addition of an associate	<b>(102,913)</b>	–
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>5,448,816</b>	<b>(19,596,943)</b>

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000 (Restated)
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	23,822,331	17,935,181
Proceeds from other borrowing	1,366,569	–
Proceeds from issuance of short-term debentures and notes	4,000,000	8,000,000
Proceeds from issue of shares	5,120,981	4,669,404
Proceeds from issuance of medium-term debentures and bonds	7,800,000	3,000,000
Proceeds from issue of convertible bonds	–	2,113,088
Proceeds from guaranteed notes	2,865,150	–
Receipt of government grants	287,598	168,727
Transaction costs attributable to issue of new shares	(60,822)	(1,440)
Transaction costs on issuance of medium-term debentures and notes	(89,768)	(1,519)
Transaction costs on issuance of short-term debentures and notes	(46,035)	(15,864)
Transaction costs on issue of convertible bonds	–	(22,075)
Transaction costs on issue of guaranteed notes	(30,793)	–
Payment on repurchase of shares	(610,938)	(62,040)
Repayment of guaranteed notes	(1,845,079)	(2,877,945)
Interest expense paid	(3,919,599)	(3,993,894)
Repayment of short-term debentures and notes	(3,000,000)	(16,000,000)
Repayment of bank borrowings	(13,751,924)	(16,831,977)
Repayment of medium-term debentures and notes	(8,442,000)	–
Dividends paid to the owners of the Company	(4,862,825)	–
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>8,602,846</b>	<b>(3,920,354)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>23,411,625</b>	<b>8,820,721</b>
Effect of changes in foreign exchange rates	20,849	(14,429)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>21,947,939</b>	<b>13,141,647</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b> represented by bank balances and cash	<b>45,380,413</b>	<b>21,947,939</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 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 56.

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. BASIS OF PREPARATION

### **Merger accounting for business combination involving entities under common control**

On 22 January 2018, Shandong Hongqiao New Material Co., Ltd. (“Shandong Hongqiao”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with 山東魏橋創業集團有限公司, Shandong Weiqiao Chuangye Group Company Limited (“Weiqiao Chuangye”), for the purchase of 55% equity interest in Chongqing Weiqiao Financial Factoring Co., Ltd. (“Chongqing Weiqiao”), at a cash consideration of approximately RMB284,407,000. The acquisition was completed on 25 January 2018, and Chongqing Weiqiao has become a subsidiary of the Group since then. As Weiqiao Chuangye and the Company are ultimately controlled by Mr. Zhang Shiping, the acquisition of Chongqing Weiqiao was regarded as business combination under common control.

The net assets of the combining entity or business are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest. The adjustments to eliminate share/registered capital of the combining entity or business against the related investment costs have been made to capital reserve in the consolidated statement of changes in equity. The details of the restated balances have been disclosed in note 57.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, consolidated statement of changes in equity and the consolidated statement of cash flows for the prior periods have been restated to include the operating results of Chongqing Weiqiao as if this acquisition had been completed on 1 January 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 3. APPLICATION OF NEW AND AMENDMENTS TO 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)”) and interpretations (“Int”), issued by the International Accounting Standards Board (the “IASB”).

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property
FRIC-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been summarised below. The application of other new and amendments to IFRSs 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 the consolidated financial statements.

#### IFRS 9 *Financial instruments*

IFRS 9 replaced the provision of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained as at 1 January 2018.

The Group’s accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 4 below.

#### (i) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group’s existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group’s financial assets and liabilities as regards their classification and measurement:

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 9 *Financial instruments* (Continued)

##### (i) Classification and measurement of financial instruments (Continued)

Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:

For the available-for-sale unlisted equity investments carried at cost less impairment amounting to RMB6,000,000, the Group has not elected the option for designation at fair value through other comprehensive income (“FVTOCI”) and reclassified them to financial assets at fair value through profit or loss (“FVTPL”). The Group measures it at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. There was no material change in fair value as at 1 January 2018 as a result of the change in classification.

Derivatives component of convertible bonds (“CBs”) issued by the Group previously at FVTPL:

The Group’s derivatives component of CBs amounting to RMB991,660,000 as measured at FVTPL under IAS 39 and continue to be measured at FVTPL. However, the amount of change in the fair value that is attributable to changes in the credit risk of these liabilities is now recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. On initial application of IFRS 9, no fair value gains or losses attributable to changes in the credit risk relating to these liabilities was transferred from retained earnings to other comprehensive income as at 1 January 2018 as no change in the credit risk relating to these liabilities.

The directors of the Company reviewed and assessed the Group’s existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all other recognised financial assets and financial liabilities that are within the scope of IFRS 9 are continued to measure on the same bases as are previously measured under IAS 39.

Note (iii) below tabulates the change in classification and measurement of the Group’s financial assets and financial liabilities upon application of IFRS 9.

##### (ii) Loss allowance for expected credit losses (“ECL”)

The adoption of IFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing IAS 39’s incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under IAS 39.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 9 *Financial instruments* (Continued)

##### (iii) Summary of effects arising from initial application of IFRS 9

The table below summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on 1 January 2018.

	Carrying amount previously reported at 31 December 2017 RMB'000 (Restated)	Impact on adoption of IFRS 9 – Reclassification RMB'000	Carrying amount as restated at 1 January 2018 RMB'000
<b>Financial assets</b>			
<b>Loans and receivables</b>			
Loans to associates	716,394	(716,394)	-
Trade receivables	2,211,734	(2,211,734)	-
Bills receivables	11,912,479	(11,912,479)	-
Loans and other receivables	10,887,278	(10,887,278)	-
Restricted bank deposits	1,262,589	(1,262,589)	-
Cash and cash equivalents	21,947,939	(21,947,939)	-
<b>Financial assets at amortised cost</b>			
Loans to associates	-	716,394	716,394
Trade receivables	-	2,211,734	2,211,734
Bills receivables	-	11,912,479	11,912,479
Loans and other receivables	-	10,887,278	10,887,278
Restricted bank deposits	-	1,262,589	1,262,589
Cash and cash equivalents	-	21,947,939	21,947,939
<b>Available-for-sale investments</b>			
Unlisted equity securities	6,000	(6,000)	-
<b>Financial assets at FVTPL</b>			
Unlisted equity securities	-	6,000	6,000
Other derivative	57	-	57

All financial liabilities have not been impacted by the application of IFRS 9 and continue to be classified and measured on the same basis as they were under IAS 39.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### **IFRS 15 Revenue from contracts with customers**

IFRS 15 superseded IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group’s accounting policies for its revenue streams are disclosed in detail in note 4 below.

The Group is principally engaged in the business of manufacture and sales of aluminum products. As at 1 January 2018, the “receipt in advance” from customers of approximately RMB710,110,000 included in other payable and accruals was reclassified as “contract liabilities” in adoption of IFRS 15.

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of IFRS 15 has no impact on the timing of revenue recognition in this regard.

#### **New and revised IFRSs issued but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases <sup>1</sup>
IFRS 17	Insurance Contracts <sup>3</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle <sup>1</sup>
Amendments to IFRS 3	Definition of a Business <sup>5</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>1</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 1 and IAS 8	Definition of Material <sup>2</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
IFRIC-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>5</sup> Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The directors of the Company anticipate that, except as described below, the application of other new and amendments to 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 2018

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB10,455,000 as disclosed in note 49. Out of this balance, an amount of RMB8,356,000 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’s consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 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.

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

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.

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 IFRS 9 *Financial Instruments* (on or after 1 January 2018) or IAS 39 *Financial Instruments: Recognition and Measurement* (before 1 January 2018) or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations

Business 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.

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Merger accounting for business combination involving entities under common control

The consolidated financial statements include the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period unless the combining entities or businesses first came under common control at a later date.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities are eliminated on consolidation.

Transaction costs, including professional fees, registration fees and costs of furnishing information to shareholders, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

#### 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 ("CGU") (or groups of CGU) that is expected to benefit from the synergies of the combination.

A CGU 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 CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Goodwill (Continued)

On disposal of the relevant CGU, 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.

#### Interests 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.

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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Interests in associates (Continued)

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 IFRS 9 (on or after 1 January 2018) or IAS 39 (before 1 January 2018). 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

##### *Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)*

Revenue is recognised 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. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

##### *Policy applicable to the year ended 31 December 2018 (with application of IFRS 15) (Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

##### *Contract liabilities*

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

The Group recognised revenue from the following major sources:

- sales of aluminum products
- steam supply income

Revenue from sales of aluminum products is recognised at a point in time when the control of the goods is transferred to the customers. Control of the goods is considered transferred to customers at the time of delivery.

Revenue from sales of steam and electricity are recognised at a point in time when the resources are consumed.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

##### *Policy applicable to the year ended 31 December 2017*

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.

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 dividend 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.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Leasing (Continued)**

###### ***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.

##### **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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies (Continued)

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.

#### 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 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 2018

### 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.

#### 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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### 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 cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term time 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 FVTPL) 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 FVTPL are recognised immediately in profit or loss.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Financial instruments (Continued)**

##### **Under IFRS 9 (applicable on or after 1 January 2018)**

##### ***Financial assets***

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.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

##### ***Financial assets at amortised cost (debt instruments)***

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

##### **Amortised cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding the ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### *Financial assets (Continued)*

#### *Financial assets at amortised cost (debt instruments) (Continued)*

#### Amortised cost and effective interest method (Continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “Other income and gains” line item (note 8).

#### *Equity instruments as at FVTOCI*

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

#### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### Financial assets (Continued)

#### Financial assets at FVTPL (Continued)

- The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other income and gains” line item. Fair value is determined in the manner described in note 45.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative.

#### Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and other receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, including bills receivables, restricted bank deposits and cash and cash equivalents, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

#### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### Financial assets (Continued)

#### Impairment of financial assets (Continued)

#### Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### *Financial assets (Continued)*

#### *Impairment of financial assets (Continued)*

#### *Significant increase in credit risk (Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### *Financial assets (Continued)*

#### *Impairment of financial assets (Continued)*

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Financial instruments (Continued)**

##### **Under IFRS 9 (applicable on or after 1 January 2018) (Continued)**

##### ***Financial assets (Continued)***

##### *Derecognition of financial assets*

The Group derecognises a financial asset 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 party. 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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

##### ***Financial liabilities and equity instruments***

##### *Classification as debt or equity*

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.

##### *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 a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

#### *Financial liabilities and equity instruments (Continued)*

##### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is 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.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss.

##### *Financial liabilities subsequently measured at amortised cost*

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the 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 amortised cost of a financial liability.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### Under IAS 39 (applicable before 1 January 2018)

##### *Financial assets*

The Group's financial assets are classified into financial assets at 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.

##### *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 45.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IAS 39 (applicable before 1 January 2018) (Continued)

#### *Financial assets (Continued)*

##### *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).

##### *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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IAS 39 (applicable before 1 January 2018) (Continued)

#### *Financial assets (Continued)*

#### *Impairment loss on financial assets (Continued)*

For certain categories of financial assets, such as trade receivables, bills receivables, loan and other 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IAS 39 (applicable before 1 January 2018) (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 profit or loss and excludes any interest paid on the financial liabilities. Fair value is determined in a manner described in note 45.

#### *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 CBs and guaranteed notes are subsequently measured at amortised cost, using the effective interest method.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Financial instruments (Continued)**

##### **Under IAS 39 (applicable before 1 January 2018) (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.

##### ***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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Under IAS 39 (applicable before 1 January 2018) (Continued)

#### *Derecognition (Continued)*

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.

#### *CBs*

CBs 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 CBs 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 CBs are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivatives components 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 CBs 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 2018

### 4. 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)**

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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) 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 CGU) 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 CGU) 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 2018

### 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. 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.

#### 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 17 and 19, 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.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**

**Critical judgements in applying accounting policies (Continued)**

***Controls in subsidiaries***

As per note 46 to the consolidated financial statements, Shandong Hongchuang Aluminum Industry Holding Company Limited (formerly known as Loftan Environmental Technology Co., Ltd) (“Hongchuang”) is a subsidiary of the Group even though 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.

***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 2018, the amounts provided for withholding tax was approximately RMB182,433,000 (2017: RMB142,261,000). Further details are given in note 40.

***Related party transactions***

As per note 51 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### **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 costs 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 CGUs 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 2018 was approximately RMB608,818,000 (2017: RMB1,265,763,000), net of accumulated impairment losses of approximately RMB1,325,639,000 (2017: RMB668,694,000). Further details are given in note 22.

#### ***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 2018 were approximately RMB186,040,000 (2017: RMB149,467,000) and approximately RMB1,037,038,000 (2017: RMB1,151,816,000), respectively. The amount of unrecognised tax losses at 31 December 2018 was approximately RMB3,789,070,000 (2017: RMB1,481,719,000). Further details are contained in note 40.

#### ***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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty (Continued)

##### *Carrying amount of property, plant and equipment*

At the end of the reporting period, the directors of the Company review the carrying amount of its property, plant and equipment of approximately RMB76,361,390,000 (2017: RMB84,043,112,000), net of accumulated impairment of property, plant and equipment of approximately RMB4,828,763,000 (2017: RMB4,828,763,000) and identify if there is indication that those assets may suffer an impairment loss. Accordingly, the recoverable amount of the property, plant and equipment is estimated in order to determine the extent of the impairment loss. 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. The estimates of the recoverable amounts of the property, plant and equipment require the use of assumptions such as cash flow projections and discount rates.

Based on the directors' assessment of recoverable amount of each CGU and with reference to the fair values calculation of certain property, plant and equipment assessed by independent valuer, no impairment loss on property, plant and equipment has been recognised for the year ended 31 December 2018. Impairment loss on property, plant and equipment of approximately RMB4,828,763,000 was recognised for the year ended 31 December 2017.

##### *Depreciation and useful lives of property, plant and equipment*

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation based on the Group's business model, its asset management policy, the industry practice and expected usage of each category of property, plant and equipment. The directors of the Company assess the residual values and the useful lives of the property, plant and equipment annually and if the expectation differs from the original estimates, such differences may impact the depreciation in the year and the estimates will be changed in the future period. For the years ended 31 December 2018 and 2017, there were no changes on the useful lives and residual value of property, plant and equipment.

##### *Impairment of trade receivables*

The Group uses a provision matrix to calculate the ECL for trade receivables. The provision rates are based on internal credit ratings and days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the carrying amount of trade receivables was approximately RMB6,750,578,000 (2017 : RMB 2,211,734,000), net of allowance for impairment loss of approximately RMB6,725,000 (2017: RMB15,772,000).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty (Continued)

##### *Impairment of a consideration receivable (included in other receivables)*

In determining the ECL for this asset, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, in estimating the probability of default of each of this receivable occurring within its loss assessment time horizon, as well as the loss upon default. As at 31 December 2018, the carrying amount of the consideration receivable is approximately RMB1,417,074,000 (2017: nil). No impairment loss has been recognised for the years ended 31 December 2018 and 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 subsequent sales, 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 2018, the carrying amount of inventories was approximately RMB19,805,561,000 (2017: RMB15,585,329,000) as disclosed in note 25.

##### *Fair value of derivatives component of CBs*

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 derivatives component of CBs of approximately RMB415,195,000 (2017: RMB991,660,000) as at 31 December 2018 are set out in note 39.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 6. REVENUE

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

	2018 RMB'000	2017 RMB'000 (Restated)
Revenue from sales of aluminum products		
– molten aluminum alloy	67,420,193	76,001,047
– aluminum alloy ingots	4,096,199	11,720,058
– aluminum fabrication	7,134,952	5,416,862
– alumina (note)	11,044,951	4,629,264
Steam supply income	498,629	174,685
	<b>90,194,924</b>	97,941,916

Note: During the current year, sale of alumina become ordinary activities of the Group and are recorded as revenue as the management of the Company decide to capture the growth in demand of alumina in the market.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2018 RMB'000	2017 RMB'000 (Restated)
<i>Geographical region</i>		
The PRC	87,199,649	96,604,927
India	785,959	–
Europe	1,227,826	519,515
Malaysia	516,139	205,221
Others	465,351	612,253
Total	<b>90,194,924</b>	97,941,916
<i>Type of customers</i>		
Government related	2,693	2,410
Non-government related	90,192,231	97,939,506
Total	<b>90,194,924</b>	97,941,916
<i>Sales channels</i>		
Direct sales	<b>90,194,924</b>	97,941,916

The revenue for the year ended 31 December 2018 are revenue from contracts with customers within the scope of IFRS 15.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 7. 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	
	2018 RMB'000	2017 RMB'000 (Restated)
PRC	77,649,656	84,655,546
Indonesia	5,748,658	5,670,065
	<b>83,398,314</b>	90,325,611

Note: Non-current assets excluded financial instruments, loans to associates and deferred tax assets.

#### Information about major customers

Revenue from a customer of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2018 RMB'000	2017 RMB'000
Customer A	36,027,053	44,833,430

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 8. OTHER INCOME AND GAINS

	2018 RMB'000	2017 RMB'000 (Restated)
Bank interest income	113,424	54,955
Other interest income	72,405	64,194
Loan receivables interest income	506,085	544,082
Imputed interest on receivables arising from disposal of a subsidiary (note 47)	58,716	–
Gain from sales of raw materials and scraps materials	247,614	53,996
Gain from sales of slag of carbon anode blocks	899,878	958,709
Gain from disposal of property, plant and equipment	7,292	8,096
Reversal of impairment of inventories	62,370	51,235
Reversal of impairment of trade receivables	9,047	–
Amortisation of deferred income (note 41)	17,920	12,159
Value-added tax ("VAT") income (note)	15,303	40,066
Foreign exchange gain, net	–	529,161
Rental income	15,976	5,011
Others	109,366	175,934
	<b>2,135,396</b>	<b>2,497,598</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.

### 9. OTHER EXPENSES

	2018 RMB'000	2017 RMB'000 (Restated)
Impairment loss recognised in respect of property, plant and equipment (note)	–	4,828,763
Impairment loss recognised in respect of goodwill	656,945	668,694
Write-down of inventories to net realisable value (note)	36,524	149,836
Impairment loss recognised in respect of other receivables	13,447	24,450
Impairment loss recognised in respect of trade receivables	–	7,133
	<b>706,916</b>	<b>5,678,876</b>

Note:

On 12 April 2017, the National Development and Reform Commission of 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告》). 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 date 15 August 2017.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 9. OTHER EXPENSES (Continued)

Note: (Continued)

For the year ended 31 December 2017, 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% 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 ended 31 December 2017.

### 10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000 (Restated)
Interest expenses on bank borrowings	1,434,011	1,110,240
Interest expenses on other borrowing	43,025	–
Interest expenses on short-term debentures and notes	215,455	421,355
Interest expenses on medium-term debentures and bonds	2,357,323	2,304,152
Interest expenses on guaranteed notes	190,565	256,952
Interest expenses on CBs	193,010	22,140
	4,433,389	4,114,839
Less: amounts capitalised under construction in progress	–	(33,897)
	4,433,389	4,080,942

The borrowing costs had been capitalised at a rate of 4.38% per annum for the year ended 31 December 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 11. INCOME TAX EXPENSES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Current tax:		
– Hong Kong Profits Tax	<b>31,623</b>	–
– PRC Enterprise Income Tax (“EIT”)	<b>2,154,684</b>	3,126,705
– Indonesia Corporate Tax	<b>278,619</b>	–
Over provision in prior year		
– PRC EIT	–	(2,298)
	<b>2,464,926</b>	3,124,407
Deferred taxation (note 40)	<b>84,514</b>	(1,335,454)
Total income tax expenses for the year	<b>2,549,440</b>	1,788,953

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. 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.

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. During the year ended 31 December 2018, two PRC subsidiaries was recognised by the PRC government as “High and New Technology Enterprise” and complied the requirements of tax concession policies of the western development respectively and was eligible to a preferential tax rate of 15% (2017: 25%).

The subsidiaries incorporated in BVI had no assessable profits since their incorporation.

A subsidiary operating in Indonesia is subject to corporate tax rate of Indonesia at 25% for the year ended 31 December 2018. No provision of tax has been made for the year ended 31 December 2017 as there is no assessable profits since its incorporation.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 11. INCOME TAX EXPENSES (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 deferred tax liability of approximately RMB182,433,000 (2017: RMB91,588,000 was released) is recognised in respect of the PRC subsidiaries' undistributed profits.

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:

	2018 RMB'000	2017 RMB'000 (Restated)
Profit before taxation	<b>8,335,692</b>	7,116,690
Tax at the domestic income tax rate of 25% (note i)	<b>2,083,923</b>	1,779,173
Tax effect of income not taxable for tax purpose	<b>(198,191)</b>	(69,062)
Tax effect of expenses not deductible for tax purpose	<b>152,765</b>	302,101
Tax effect of tax losses not recognised	<b>717,462</b>	197,752
Utilisation of tax losses previously not recognised	<b>(95,613)</b>	(153,204)
Over-provision in respect of prior years	–	(2,298)
Effect of different tax rates of subsidiaries operating in other jurisdiction	<b>(27,817)</b>	1,356
Effect of income tax on concessionary rate	<b>(1,251)</b>	–
Effect of two-tiered profits tax rates regime	<b>(139)</b>	–
Tax effect of share of profits of associates	<b>(107,386)</b>	(92,997)
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	<b>182,433</b>	(91,588)
Tax effect of a tax facility granted by government	<b>(14,053)</b>	(82,280)
Tax effect of tax exemption (note ii)	<b>(34)</b>	–
Tax effect of super deduction from research and development expenses	<b>(142,659)</b>	–
Income tax expenses for the year	<b>2,549,440</b>	1,788,953

Notes:

- i. The domestic tax rate (which is the PRC EIT) in the jurisdiction where the operation of the Group is substantially based is used.
- ii. Tax exemption represented a reduction of Hong Kong Profits Tax for the year of assessment 2018/2019 by 75%, subject to a ceiling of HK\$20,000 per case.

Details of the deferred taxation are set out in note 40.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 12. PROFIT FOR THE YEAR

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Profit for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (note 13)	<b>5,675</b>	4,854
Salaries and allowances (excluding directors' and chief executive's emoluments)	<b>3,224,888</b>	3,559,671
Retirement benefit scheme contributions (excluding directors' and chief executive's emoluments)	<b>142,263</b>	153,711
<b>Total staff costs</b>	<b>3,337,826</b>	3,718,236
Auditor's remuneration	<b>4,200</b>	4,200
Amortisation of prepaid lease payments	<b>167,827</b>	85,538
Amortisation of intangible assets	<b>2,924</b>	998
Cost of inventories recognised as an expense	<b>73,815,240</b>	80,868,026
Depreciation of property, plant and equipment	<b>7,168,500</b>	7,775,494
Depreciation of investment properties	<b>7,325</b>	5,541
Investment loss on derivatives	<b>57</b>	19,427
Foreign exchange losses, net	<b>794,178</b>	–
Research and development expenses (note)	<b>760,849</b>	4,854
Gross rental income from investment properties	<b>15,976</b>	5,011
Less: direct operating expenses incurred for investment properties that generated rental income during the year	<b>(236)</b>	(80)
	<b>15,740</b>	4,931

Note: Included in research and development expenses was staff cost of RMB121,660,000 (2017: nil) which has been included in staff costs disclosure above.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 11 (2017: 11) 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 Ruitian	Yang Congsen	Zhang Jinglei	Chen Yisong (Zhang Hao as his alternate) <sup>2</sup>	Xing Jian	Chen Yinghai <sup>3</sup>	Han Benwen	Dong Xinyi	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 31 DECEMBER 2018</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	500	600	300	145	200	92	200	200	5,037
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	153	98	141	94	112	-	-	-	-	-	-	598
- Retirement benefit scheme contributions	-	-	14	13	13	-	-	-	-	-	-	40
	1,653	598	955	607	725	300	145	200	92	200	200	5,675

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The emoluments paid or payable to each of the 11 (2017: 11) directors and the chief executive were as follows:

	Executive directors			Non-executive directors				Independent non-executive directors				Total
	Zhang Shiping ("Mr Zhang") RMB'000	Zheng Shuliang RMB'000	Zhang Bo RMB'000	Zhang Ruilian <sup>1</sup> RMB'000	Yang Congsen RMB'000	Zhang Jinglei RMB'000	Chen Hao as his alternate) <sup>2</sup> RMB'000	Chen Yisong (Zhang Hao as his alternate) <sup>2</sup> RMB'000	Xing Jian RMB'000	Chen Yinghai <sup>3</sup> RMB'000	Han Benwen RMB'000	
For the year ended 31 December 2017												
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, resigned on 2 February 2018 and appointed on 31 August 2018
3. Resigned on 16 May 2018

None of the directors waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

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 2018 and 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining three (2017: three) individuals were as follows:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Salaries and other benefits	<b>2,716</b>	4,332
Retirement benefits scheme contributions	<b>46</b>	47
	<b>2,762</b>	4,379

Their emoluments were within the following bands:

	<b>No. of employee</b>	
	<b>2018</b>	2017
Nil to HK\$1,000,000 (approximately RMB876,000)	<b>1</b>	–
HK\$1,000,001 to HK\$1,500,000 (approximately RMB876,000 to RMB1,314,000)	<b>2</b>	1
HK\$1,500,001 to HK\$2,000,000 (approximately RMB1,314,000 to RMB1,752,000)	–	1
HK\$2,000,001 to HK\$2,500,000 (approximately RMB1,752,000 to RMB2,191,500)	–	1
	<b>3</b>	3

### 15. DIVIDENDS

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Dividends recognised as distribution during the year	<b>1,697,064</b>	3,203,523

Subsequent to the end of the reporting period, a final dividend of HK24 cents per share in respect of the year ended 31 December 2018 per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

During the current year, a final dividend of HK20 cents per share in respect of the year ended 31 December 2017 has been approved and paid.

During the year ended 31 December 2017, a final dividend of HK27 cents per share and a special dividend of HK20 cents per share in respect of the year ended 31 December 2016 were approved by the shareholders in general meeting. These dividends were paid during the year ended 31 December 2018.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 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:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	<b>5,407,422</b>	5,130,064
Effect of dilutive potential ordinary shares:		
Interest expense on liability component of CBs	<b>193,010</b>	22,140
Changes in fair values of derivatives component of CBs	<b>(397,683)</b>	18,231
Exchange loss (gain) on translation of CBs	<b>112,322</b>	(45,199)
Earnings for the purpose of diluted earnings per share	<b>5,315,071</b>	5,125,236
	<b>2018</b> <b>'000</b>	2017 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>8,696,856</b>	7,343,286
Effect of dilutive potential ordinary shares:		
CBs	<b>256,657</b>	28,571
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>8,953,513</b>	7,371,857



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 17. 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 2017 (Restated)	34,756,180	65,896,833	60,952	66,190	4,529,272	105,309,427
Additions	56,416	141,313	15,378	12,531	9,906,271	10,131,909
Acquired on acquisition of subsidiaries (note 46)	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 (Restated) and 1 January 2018	36,733,734	71,555,504	73,643	78,762	6,200,451	114,642,094
Additions	324,315	275,141	2,750	6,871	1,946,960	2,556,037
Transfer	595,534	650,262	–	–	(1,245,796)	–
Disposals	(132,644)	(1,122,990)	(413)	(3,840)	–	(1,259,887)
Disposal of a subsidiary (note 47)	(1,440,601)	(1,656,132)	(2,010)	(2,256)	(414,590)	(3,515,589)
Exchange realignment	188,568	62,885	518	450	54,364	306,785
At 31 December 2018	36,268,906	69,764,670	74,488	79,987	6,541,389	112,729,440
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2017 (Restated)	3,552,340	15,041,828	28,594	28,161	–	18,650,923
Provided for the year	1,542,947	6,208,364	15,808	8,375	–	7,775,494
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 (Restated) and 1 January 2018	6,581,425	22,997,060	44,010	36,584	939,903	30,598,982
Provided for the year	1,487,717	5,660,464	11,756	8,563	–	7,168,500
Eliminated on disposal	(68,287)	(1,023,992)	(367)	(3,549)	–	(1,096,195)
Eliminated on disposal of a subsidiary (note 47)	(123,529)	(208,758)	(698)	(302)	–	(333,287)
Exchange realignment	19,508	10,011	352	179	–	30,050
At 31 December 2018	7,896,834	27,434,785	55,053	41,475	939,903	36,368,050
<b>CARRYING VALUES</b>						
At 31 December 2018	28,372,072	42,329,886	19,435	38,511	5,601,486	76,361,390
At 31 December 2017 (Restated)	30,152,309	48,558,444	29,633	42,178	5,260,548	84,043,112

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 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 2018, certain of the Group's buildings with a net carrying amount of approximately RMB9,282,147,000 (2017: RMB9,307,202,000) were pledged to secure bank borrowings of the Group (note 34).

There are properties with a carrying amount of approximately RMB5,189,424,000 (2017: RMB5,363,557,000) 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.

### 18. INTANGIBLE ASSETS

	Patents RMB'000
<b>COST</b>	
At 1 January 2017	–
Acquired on acquisition of subsidiaries (note 46)	14,970
At 31 December 2017 and 1 January 2018	14,970
Additions	11,625
At 31 December 2018	26,595
<b>ACCUMULATED AMORTISATION</b>	
At 1 January 2017	–
Provided for the year	998
At 31 December 2017	998
Provided for the year	2,924
At 31 December 2018	3,922
<b>CARRYING VALUES</b>	
At 31 December 2018	22,673
At 31 December 2017	13,972

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 19. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000 (Restated)
Carrying amount at 1 January	3,892,689	3,122,655
Addition during the year	1,321,230	586,909
Acquired on acquisition of subsidiaries (note 46)	–	270,348
Amortisation during the year	(167,827)	(85,538)
Exchange realignment	1,376	(1,685)
Carrying amount at 31 December	<b>5,047,468</b>	3,892,689
Analysed for reporting purposes as:		
Current assets	<b>132,414</b>	85,902
Non-current assets	<b>4,915,054</b>	3,806,787
	<b>5,047,468</b>	3,892,689

The amount represents the prepayment of rentals for land use rights in the PRC and Indonesia for a period of 20 to 70 years.

There are prepaid lease payments with carrying amount of approximately RMB1,125,462,000 (2017: RMB725,064,000) located in the PRC which the Group is in the process of obtaining the property certificates.

### 20. INVESTMENT PROPERTIES

	RMB'000
<b>COST</b>	
At 1 January 2017	–
Acquired on acquisition of subsidiaries (note 46)	<b>156,472</b>
At 31 December 2017, 1 January 2018 and 31 December 2018	<b>156,472</b>
<b>ACCUMULATED DEPRECIATION</b>	
At 1 January 2017	–
Provided for the year	<b>5,541</b>
At 31 December 2017	<b>5,541</b>
Provided for the year	<b>7,325</b>
At 31 December 2018	<b>12,866</b>
<b>CARRYING VALUES</b>	
At 31 December 2018	<b>143,606</b>
At 31 December 2017	<b>150,931</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 20. INVESTMENT PROPERTIES (Continued)

The fair value of the Group's investment properties as at 31 December 2018 was approximately RMB153,789,000 (2017: RMB156,472,000). The fair value has been arrived at with reference to a valuation carried out by Zhongjing Mixin (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 2018 of the investment properties of the Group are at Level 3. There were no transfers between fair value hierarchies during the year.

The following table gives information about how the fair values of the investment properties as at 31 December 2018 were determined (in particular, the valuation techniques and inputs used):

	Fair value hierarchy	Fair value as at 31 December 2018 '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	RMB153,789 (2017: RMB156,472)	Depreciated replacement cost ("DRC") approach, Key inputs: Market replacement cost, assets residual ratio	Market Replacement cost per square metre/ per unit	Approximately RMB1,000 per square metre/ from approximately RMB7,000 to RMB712,000 (2017: RMB7,000 to RMB689,000) per unit	The higher the market replacement cost, the higher the fair value
				Assets residual ratio	From approximately 65% to 75% (2017: 69% to 81%)	The higher the assets residual ratio, the lower the fair value

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 21. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Costs of investments in associates	123,140	20,227
Share of profits and other comprehensive income	1,017,309	588,707
Loans to associates	1,140,449	608,934
	<b>754,952</b>	716,394
	<b>1,895,401</b>	1,325,328

The loans to associates of United States Dollar ("US\$") 110,000,000 (2017: US\$110,000,000) are unsecured, interest-free and repayable after one year.

The Group's payable balances with the associates are disclosed in note 51.

As at 31 December 2018 and 2017, 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
					2018	2017	2018	2017	
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
GTS Global Trading Pte. Ltd. ("GTS")	Incorporated	Singapore	Singapore	Ordinary	25%	-	25%	-	Trading of bauxite
山東創新炭材料有限公司 ("創新炭材料")	Incorporated	PRC	PRC	Ordinary	20%	-	20%	-	Trading of carbon
Winning Consortium Railway Pte. Ltd.	Incorporated	Singapore	Singapore	Ordinary	29%	-	29%	-	Railway design and construction

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 21. INTERESTS IN ASSOCIATES (Continued)

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

	2018 RMB'000	2017 RMB'000
Current assets	6,254,062	3,660,892
Current liabilities	(2,406,938)	(1,304,501)
Revenue	8,599,058	6,183,627
Profit for the year	1,195,340	1,863,881
Other comprehensive income (expense) for the year	295,393	(155,641)
Total comprehensive income for the year	1,490,733	1,708,240
Elimination of realised (unrealised) profits	93,825	(93,825)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in the associate is set out below:

	2018 RMB'000	2017 RMB'000
Net assets of the associate	3,847,124	2,356,391
Proportion of the Group's ownership interest in ABM	25%	25%
Carrying amount of the Group's interest in ABM	961,781	589,098

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:

	2018 RMB'000	2017 RMB'000
The Group's share of profit (loss)	54,472	(156)
The Group's share of other comprehensive income	1,447	-
The Group's share of total comprehensive income	55,919	(156)
Elimination of unrealised profits	(17,587)	-

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 21. INTERESTS IN ASSOCIATES (Continued)

	2018 RMB'000	2017 RMB'000
Carrying amount of the Group's interests in immaterial associates	178,668	19,836

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:

	2018 RMB'000	2017 RMB'000
Unrecognised share of profits of associates for the year	15,381	35,275

	2018 RMB'000	2017 RMB'000
Accumulated unrecognised share of losses of associates	7,805	23,186

### 22. GOODWILL

	2018 RMB'000	2017 RMB'000
<b>COST</b>		
At beginning of the financial year	1,934,457	311,769
Acquired on acquisition of subsidiaries (note 46)	–	1,622,688
At the end of the financial year	1,934,457	1,934,457
<b>ACCUMULATED IMPAIRMENT LOSSES</b>		
At beginning of the financial year	668,694	–
Impairment loss recognised during the year	656,945	668,694
At the end of the financial year	1,325,639	668,694
<b>CARRYING AMOUNT</b>		
At 31 December	608,818	1,265,763

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 2018, the Group recognised an impairment loss of approximately RMB656,945,000 (2017: RMB668,694,000) 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 22. GOODWILL (Continued)

#### Impairment test on goodwill

For the purposes of impairment testing, goodwill has been allocated to the following CGU.

	2018 RMB'000	2017 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)	297,049	953,994
	<b>608,818</b>	1,265,763

The basis of the recoverable amounts of the above CGUs 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 21.65% (2017: 22.63%). 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.

#### 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 21.65% (2017: 22.63%). 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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 22. GOODWILL (Continued)

#### Impairment test on goodwill (Continued)

##### Unit B (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 B to exceed the aggregate recoverable amount of Unit B.

##### Hongchuang

The recoverable amount of this CGU approximates to RMB678,334,000 (2017: RMB1,336,469,000) 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 5.08% (2017: 4.04%) 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 2018 and 2017 of Hongchuang are at Level 2. There were no transfers between fair value hierarchies during the year.

### 23. FINANCIAL ASSETS AT FVTOCI

Financial assets at FVTOCI comprise:

	2018 RMB'000	2017 RMB'000
Equity instruments as at FVTOCI		
– Listed	908,170	–

The fair value of these investments is disclosed in note 45.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 23. FINANCIAL ASSETS AT FVTOCI (Continued)

Investments in listed equity securities represent the Group's investment in Bank of Jinzhou, a company listed in Hong Kong and engaged in the provision of corporate and retail deposits, loans and advances, payment and settlement services, finance leasing as well as other banking services as approved by the China Banking Regulatory Commission. These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

### 24. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2018 RMB'000	2017 RMB'000
Unlisted investments:		
– equity securities	–	6,000

As at 31 December 2018, the above unlisted equity investments represented 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. The investment was reclassified to financial assets at FVTPL upon adoption of IFRS 9 on 1 January 2018.

During the year ended 31 December 2018, the Group disposed of the above unlisted equity securities with carrying amount of RMB6,000,000 as at FVTPL upon the application of IFRS 9. No gain or loss on disposal has been recognised in profit or loss.

### 25. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	12,252,197	6,844,106
Work in progress	6,814,947	7,510,528
Finished goods	738,417	1,230,695
	<b>19,805,561</b>	<b>15,585,329</b>

During the year, the allowance for inventories of approximately RMB36,524,000 (2017: RMB149,836,000) has been recognised and included in other expenses.

During the year, inventories previously impaired were sold at profit. As a result, a reversal of provision of approximately RMB62,370,000 (2017: RMB51,235,000) has been recognised and included in other income and gains in the current year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 26. TRADE RECEIVABLES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Trade receivables	<b>6,757,303</b>	2,227,506
Less: allowance for impairment losses	<b>(6,725)</b>	(15,772)
	<b>6,750,578</b>	2,211,734

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. As at 31 December 2018, the gross amount of trade receivables arising from contracts with customers amounted to RMB6,757,303,000 (1 January 2018: RMB2,227,506,000).

The Group has a policy of allowing average credit period of 90 days to its trade customers.

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Within 3 months	<b>6,304,751</b>	1,951,269
3-12 months	<b>438,473</b>	259,846
12-24 months	<b>7,076</b>	618
24-36 months	<b>278</b>	1
	<b>6,750,578</b>	2,211,734

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB23,939,000 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 26. TRADE RECEIVABLES (Continued)

The aged analysis of trade receivables which are past due but not impaired is set out below:

	2017 RMB'000 (Restated)
Neither past due nor impaired	2,187,795
Less than 1 month past due	3,606
More than 1 month but less than 3 months past due	20,333
	<hr/> 2,211,734 <hr/>

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.

From 1 January 2018 onwards, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant. As at 31 December 2018, lifetime ECL of approximately RMB6,725,000 has been made in respect of trade receivables with gross amount of RMB6,725,000 as they are determined to be credit impaired. For the remaining balance of approximately RMB6,750,578,000, the Group determines the ECL based on a provision matrix grouped by the past due status of these receivables. However, no loss allowance was made on these receivables as the identified impairment loss is immaterial.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 26. TRADE RECEIVABLES (Continued)

The movement in the allowance for impairment of trade receivables is set out below:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
At 1 January	<b>15,772</b>	8,639
Reversal of impairment loss	<b>(9,047)</b>	–
Impairment loss recognised	–	7,133
At 31 December	<b>6,725</b>	15,772

At 31 December 2017, the Group's trade receivables of approximately RMB15,772,000 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.

### 27. BILLS RECEIVABLES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Bills receivables	<b>11,726,626</b>	11,912,479

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Within 3 months	<b>6,319,777</b>	5,116,948
3 to 6 months	<b>5,046,349</b>	6,567,541
Over 6 months	<b>360,500</b>	227,990
	<b>11,726,626</b>	11,912,479

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 27. BILLS RECEIVABLES (Continued)

#### 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>2018</b> <b>RMB'000</b>	2017 RMB'000
Bills receivable endorsed to suppliers with full recourse (note)		
Carrying amount of transferred assets	<b>11,681,840</b>	11,772,983
Carrying amount of trade payables	<b>(11,050,300)</b>	(11,647,437)
Carrying amount of other payables	<b>(631,540)</b>	(125,546)
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.

From 1 January 2018 onwards, the Group measures the loss allowance for bills receivables at an amount equal to 12-month ECL. As the Group's historical credit loss experience does not indicate significant difficulties in recovering these bills receivables before their due dates, no additional loss allowance was provided on the Group's bills receivables after the adoption of IFRS 9 in the current year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 28. PREPAYMENTS, LOAN AND OTHER RECEIVABLES

The balance consists of prepayments, loan and other receivables at cost of:

	2018 RMB'000	2017 RMB'000 (Restated)
Prepayments to suppliers	1,386,528	527,893
Value-added tax recoverable	1,205,447	1,349,270
CIT refundable	80,404	81,656
Receivables arising from dealing with futures	102,411	268,996
Receivables arising from disposal of a subsidiary (note 47)	1,417,074	–
Factoring receivables (note (i))	323,627	191,183
Loan receivable (note (ii))	–	9,950,000
Interest receivables	539	5,141
Amount due from related parties	–	36,867
Others	269,891	460,102
	<b>4,785,921</b>	12,871,108
Less: allowance for impairment losses	<b>(38,458)</b>	(25,011)
	<b>4,747,463</b>	12,846,097

Notes:

- (i) The factoring receivables will be received within one year and carrying interest rate of 10% per annum.
- (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. The loan receivable was unsecured, beared interest at 7% per annum and repayable one year from 17 February 2017, the drawdown date. The carrying amount of the loan receivable was guaranteed by a related company of the Group, in which the director and controlling shareholder of the Company has significant non-controlling beneficial interest. 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.

The loan receivable was fully settled, including principal and accrued interest, during the year ended 31 December 2018 (2017: principal and accrued interest of RMB9,954,959,000).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 28. PREPAYMENTS, LOAN AND OTHER RECEIVABLES (Continued)

The Group recognised lifetime ECL and 12-month ECL for other receivables based on individually significant customers as follows:

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Other receivables – Default	N/A	23,722	(23,722)	–
Other receivables – Doubtful	4%	324,166	(14,736)	309,430
Other receivables – Performing	*	1,765,654	–	1,765,654
		2,113,542	(38,458)	2,075,084

\*: For the remaining balance of other receivables, it has low risk of default or has not been significantly increase in credit risk since initial recognition. The directors of the Company consider the ECL is immaterial.

The movement in the impairment allowance for other receivables during the year are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
At 1 January	25,011	561
Increase during the year	13,447	24,450
At 31 December	38,458	25,011

At 31 December 2017, the Group's other receivables of approximately RMB25,011,000 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.

### 29. OTHER FINANCIAL ASSETS

	2018 RMB'000	2017 RMB'000
<b>Other derivatives</b>		
Foreign currency swap	–	57
	2018 RMB'000	2017 RMB'000
Amounts shown under current assets	–	57



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 29. OTHER FINANCIAL ASSETS (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

### 30. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000 (Restated)
Cash and bank balances	45,380,413	21,947,939
Restricted bank deposits	1,256,474	1,262,589
	<b>46,636,887</b>	23,210,528
Less:		
Restricted bank deposits:		
– pledged for bills payable	(1,000,000)	(1,000,000)
– pledged for issuance of letter of credit	(231,474)	(230,025)
– pledged for guarantee issued	(25,000)	(27,000)
– other restricted bank balances	–	(5,564)
Cash and cash equivalents	<b>45,380,413</b>	21,947,939

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 time 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 0.05% to 1.50% (2017: 0.01% to 1.75%) per annum.

As at 31 December 2018, no bank balances were frozen by the Zhang Yuan Xian District Court. Details are set out in note 53 (2017: RMB5,564,000).

Restricted bank deposits represents deposits pledged to banks to secure short-term banking facilities granted to the Group and guarantees issued by the Group. The restricted bank deposits carry fixed interest rate from 0.05% to 1.55% (2017: 1.5% to 1.75%) per annum.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 31. CHANGES IN FAIR VALUE OF DERIVATIVES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Changes in fair value of derivatives arising from:		
– other financial assets	–	(1,666)
– derivatives component of CBs (note 39)	<b>397,683</b>	(18,231)
	<b>397,683</b>	(19,897)

### 32. TRADE AND BILLS PAYABLES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Trade payables to third parties	<b>14,396,790</b>	13,787,489
Trade payables to an associate	<b>264,647</b>	272,611
	<b>14,661,437</b>	14,060,100
Bills payables	<b>2,000,000</b>	2,000,000
	<b>16,661,437</b>	16,060,100

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Within 6 months	<b>14,333,933</b>	13,894,747
6-12 months	<b>279,933</b>	122,227
1-2 years	<b>7,330</b>	37,417
More than 2 years	<b>40,241</b>	5,709
	<b>14,661,437</b>	14,060,100

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 2018

### 33. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000 (Restated)
Payables on property, plant and equipment	4,271,983	6,099,707
Retention payables	2,421,027	2,944,324
Accrued payroll and welfare (note (a))	620,660	384,692
Receipt in advance	–	710,110
Contract liabilities (note (b))	720,185	–
Dividend payables (note 15)	5	3,165,766
Interest payable	1,778,752	1,521,194
Other taxes payables	1,507,955	1,032,312
Others	520,113	489,705
	<b>11,840,680</b>	<b>16,347,810</b>

Notes:

- (a) Included in the accrued payroll and welfare as at 31 December 2018 were accrued directors' emoluments of RMB5,020,000 (2017: RMB4,357,000). The amount is unsecured, non-interest bearing and repayable on demand.
- (b) Contract liabilities

	31.12.2018 RMB'000	1.1.2018 * RMB'000
Sales of aluminum products	720,185	710,110

\* The amounts in this column are after the adjustments from the application of IFRS 15.

Contract liabilities include advances received to deliver aluminum products.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is RMB710,110,000. There was no revenue recognised in the current year that related to performance obligations that were satisfied in prior year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 34. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
<b>Current</b>		
Secured bank borrowings (note (iii))	873,104	763,677
Unsecured bank borrowings (note (i))	18,060,631	8,765,471
	<b>18,933,735</b>	9,529,148
<b>Non-current</b>		
Secured bank borrowings (note (iii))	8,146,613	8,152,406
Unsecured bank borrowings (note (i))	3,117,190	2,373,197
	<b>11,263,803</b>	10,525,603
	<b>30,197,538</b>	20,054,751

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2018 RMB'000	2017 RMB'000
Within one year	18,933,735	9,529,148
In the second year	8,482,516	2,721,117
In the third to fifth years, inclusive	2,781,287	7,804,486
	<b>30,197,538</b>	20,054,751

	2018 RMB'000	2017 RMB'000
Amounts shown under current liabilities	18,933,735	9,529,148
Amounts shown under non-current liabilities	11,263,803	10,525,603
	<b>30,197,538</b>	20,054,751

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 34. BANK BORROWINGS (Continued)

The exposure of the Group's fixed-rate bank borrowings and the contractual maturity dates (or reset dates) are as follows:

	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings:		
Within one year	4,723,090	4,249,961

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:

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	2.70% to 7.50%	3.15% to 6.09%
Variable-rate borrowings	4.35% to 6.09%	3.90% to 6.09%

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	2018 RMB'000	2017 RMB'000
US\$	8,348,844	6,316,266

Notes:

- (i) Bank borrowings of approximately RMB299,000,000 (2017: RMB499,000,000) are guaranteed by a related party was set out in note 51.
- (ii) As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2018 RMB'000	2017 RMB'000
Floating rate		
– expiring within one year	1,361,216	1,010,807

- (iii) Secured borrowings of the Group are secured by the Group's property, plant and equipment (note 17).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 35. OTHER BORROWING

	2018 RMB'000	2017 RMB'000
Other borrowing, unsecured	1,366,569	–

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreement):

	2018 RMB'000	2017 RMB'000
After one year but within two years	1,366,569	–

The interest rate of the other borrowing of US\$200,000,000 (2017: nil) is fixed at 7.50% per annum.

### 36. SHORT-TERM DEBENTURES AND NOTES

	2018 RMB'000	2017 RMB'000
Short-term debentures and notes	4,000,000	3,000,000

The details of the unsecured short-term debentures and notes issued and outstanding as at 31 December 2017 and 2018 are set out as follows:

Debentures	Date of issue	Principal amount RMB'000	Interest rate	Date of maturity
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
Short-term debentures	5 February 2018	1,000,000	6.00%	7 February 2019
Short-term debentures	14 March 2018	1,000,000	6.25%	16 March 2019
Short-term debentures	22 March 2018	1,000,000	6.20%	26 March 2019
Short-term debentures	2 April 2018	1,000,000	6.50%	4 April 2019

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.

### 37. MEDIUM-TERM DEBENTURES AND BONDS

	2018 RMB'000	2017 RMB'000
Medium-term debentures and bonds – due within one year	1,752,756	7,196,185
Medium-term debentures and bonds – due after one year	41,077,258	36,271,871
	<b>42,830,014</b>	<b>43,468,056</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 37. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

The details of the unsecured medium-term debentures and bonds issued and outstanding as at 31 December 2017 and 2018 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
Medium-term debentures M	2 March 2018	1,000,000	7.50%	7.85%	6 March 2021
Medium-term debentures N	18 April 2018	1,000,000	7.30%	7.65%	19 April 2021
Medium-term debentures O	20 April 2018	1,300,000	6.75%	7.09%	23 April 2021
Medium-term debentures P	25 April 2018	1,000,000	6.73%	7.07%	27 April 2021
Medium-term debentures Q	26 April 2018	1,000,000	6.90%	7.24%	27 April 2021
Medium-term debentures R	24 May 2018	1,000,000	7.47%	7.82%	25 May 2021
Medium-term debentures S	13 August 2018	1,000,000	7.40%	7.67%	16 August 2021
Medium-term debentures T	23 August 2018	500,000	7.47%	7.75%	27 August 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	1,758,000	6.05%	6.50%	2 June 2019
		(2017: 3,000,000)			
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 2018

### 37. MEDIUM-TERM DEBENTURES AND BONDS (Continued)

Debentures A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S and T 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 1 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. On 30 May 2018, the Group has redeemed the private placement enterprises bonds A for RMB1,242,000,000 together with interest accrued up to that date.

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 15 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 2018

### 37. 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:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Within one year	<b>1,752,756</b>	7,196,185
In the second to fifth year	<b>33,330,745</b>	28,535,271
Over five years	<b>7,746,513</b>	7,736,600
	<b>42,830,014</b>	43,468,056

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 38. GUARANTEED NOTES

	2018 RMB'000	2017 RMB'000
Current liabilities	<b>3,078,664</b>	1,957,399

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 was guaranteed by certain overseas subsidiaries of the Group. The 2018 Guaranteed Notes was matured on 3 May 2018. The 2018 Guaranteed Notes were 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.

<b>Period</b>	<b>Redemption price</b>
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 i & ii)
Prior to 3 May 2018	106.875% 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 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 38. GUARANTEED NOTES (Continued)

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.

On 3 May 2018, the Company has redeemed the 2018 Guaranteed Notes in full at their principal amount together with interest accrued to the maturity date.

On 17 April 2018, the Company issued 6.85% guaranteed notes with the aggregate principal amount of US\$450,000,000 (equivalent to approximately RMB2,865,150,000) (the "2019 Guaranteed Notes") which are guaranteed by certain subsidiaries of the Group. The 2019 Guaranteed Notes will be mature on 22 April 2019. The 2019 Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2019 Guarantee Notes, at any time or from time to time prior to the maturity date, the 2019 Guaranteed Notes may/will be redeemed by the Company at a redemption price set forth below.

Period	Redemption price
Prior to 22 April 2019	100% of the principal amount, plus the applicable premium as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date (notes i & ii)
Prior to 22 April 2019	106.85% of the principal amount, plus accrued and unpaid interest (note iii)

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 2019 Guaranteed Notes on 22 April 2019, plus all required remaining scheduled interest payments due on the 2019 Guaranteed Notes through 22 April 2019 (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 22 April 2019, the Company may at its option redeem the 2019 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 22 April 2019, the Company may redeem up to 35% of the 2019 Guaranteed Notes, at a redemption price of 106.85% 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.

The carrying amount of the 2019 Guaranteed Notes on date of issuance is net of issue expenses of US\$4,837,000 (equivalent to approximately RMB30,793,000) and the effective interest rate of the 2019 Guaranteed Notes is 9.06% 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 2018

### 39. CONVERTIBLE BONDS

On 28 November 2017, the Company issued CBs bearing interest at 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 CBs 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:

	Liability component of CBs RMB'000	Derivatives component of CBs RMB'000	Total RMB'000
As at 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 and 1 January 2018	<b>1,095,225</b>	<b>991,660</b>	<b>2,086,885</b>
Changes in fair values	–	(397,683)	(397,683)
Effective interest expenses	193,010	–	193,010
Interest paid	(94,039)	–	(94,039)
Conversion into shares of the Company (note 42(c))	(248,367)	(224,881)	(473,248)
Exchange translation	66,223	46,099	112,322
As at 31 December 2018	<b>1,012,052</b>	<b>415,195</b>	<b>1,427,247</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 39. CONVERTIBLE BONDS (Continued)

On 25 January 2018, 70,544,156 (2017: nil) ordinary shares of the Company were issued as a result of the conversion of CBs with principal amount of US\$73,600,000. No redemption, purchase or cancellation by the Company has been made in respect of the CBs during the year ended 31 December 2018 (2017: nil).

On 7 February 2018, as a result of the Company's declaration of dividend, the conversion price of the CBs was adjusted from HK\$8.16 to HK\$7.71 per share and on 12 June 2018, as a result of the Company's declaration of dividend, the conversion price of the CBs was further adjusted from HK\$7.71 to HK\$7.53 per share. Save for this alteration, all other terms and conditions of the outstanding CBs remained unchanged. The relevant ordinary resolution was duly passed at the special general meeting.

As at 31 December 2018, the principal amount of the CBs that remained outstanding amounted to US\$246,400,000 (2017: US\$320,000,000) of which a maximum of 255,928,775 (2017: 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, 28 November 2017 and 7 February 2018 and 13 July 2018.

At 31 December 2017 and 2018, 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 CBs 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 CBs of approximately RMB10,390,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017. The changes in fair value of the derivatives component of CBs were recognised in the consolidated profit or loss. The inputs into the model were as follows:

	<b>At 31 December 2018</b>	At 31 December 2017
Share price	<b>HK\$4.45</b>	HK\$8.75
Conversion price	<b>HK\$7.53</b>	HK\$8.16
Expected volatility	<b>55.54%</b>	48.07%
Expected life	<b>3.91 years</b>	4.91 years
Risk free rate	<b>2.45%</b>	2.20%
Expected dividend yield	<b>4.40%</b>	3.09%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 40. 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:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Deferred tax assets	<b>1,865,927</b>	1,784,856
Deferred tax liabilities	<b>(670,982)</b>	(505,397)
	<b>1,194,945</b>	1,279,459

The deferred tax assets (liabilities) recognised by the Group and the movements thereon during the year are as follows:

	Decelerated tax depreciation	Excess of accounting depreciation over tax depreciation	Tax losses	Income tax facility	Undistributed profits of PRC subsidiaries	Unrealised profit on intra- group sales	Deferred income	Provisions	Fair value change of derivative financial instruments	Consideration receivables from disposal of a subsidiary	Fair value increase on non-current assets arising from business combination	Estimated liabilities for employee benefits	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	RMB'000
At 1 January 2017	-	1	286,724	-	(233,849)	222,102	30,186	5,015	423	-	(344,246)	871	(20,775)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	(35,220)	-	(35,220)
(Charged) credited to profit or loss	1,151,816	(1)	(149,257)	82,280	91,588	73,391	39,514	30,214	(423)	-	16,332	-	1,335,454
At 31 December 2017 and 1 January 2018	1,151,816	-	149,467	82,280	(142,261)	295,493	69,700	35,229	-	-	(363,136)	871	1,279,459
Credited (charged) to profit or loss	(114,778)	-	36,573	14,053	(182,433)	68,988	67,420	(8,725)	-	14,481	16,848	3,059	(84,514)
At 31 December 2018	1,037,038	-	186,040	96,333	(324,694)	364,481	137,120	26,504	-	14,481	(346,288)	3,930	1,194,945

At the end of the reporting period, the Group has unused tax losses of approximately RMB4,533,230,000 (2017: RMB2,079,587,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB744,160,000 (2017: RMB597,868,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses approximately RMB3,789,070,000 (2017: RMB1,481,719,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB3,788,602,000 (2017: RMB1,175,198,000) that will expire within next five years. The remaining unrecognised tax losses of approximately RMB468,000 (2017: RMB306,521,000) may be carried forward indefinitely.

Certain tax losses of approximately RMB115,132,000 (2017: nil) attributable to the Company and certain subsidiaries were disallowed by the Inland Revenue Department in the current year.

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 RMB36,294,907,000 (2017: RMB34,543,020,000). 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 2018

### 41. DEFERRED INCOME

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Restated)
Government grants		
– Current liabilities	<b>19,450</b>	16,571
– Non-current liabilities	<b>553,820</b>	287,021
	<b>573,270</b>	303,592

As at 31 December 2018, the Group received government subsidies of approximately RMB287,598,000 (2017: RMB169,977,000) 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 plant and machineries. This policy has resulted in a credit to income in the current period of approximately RMB17,920,000 (2017: RMB12,159,000). As at 31 December 2018, balances of approximately RMB573,270,000 (2017: RMB303,592,000) remain to be amortised.

### 42. SHARE CAPITAL

	Number of shares		Share Capital	
	<b>2018</b>	2017	<b>2018</b> <b>US\$</b>	2017 US\$
<b>Authorised:</b>				
Ordinary shares of US\$0.01 each	<b>10,000,000,000</b>	10,000,000,000	<b>100,000,000</b>	100,000,000
	<b>2018</b>	2017	<b>2018</b> <b>US\$</b>	2017 US\$
<b>Issued and fully paid:</b>				
Ordinary shares of US\$0.01 each	<b>8,675,394,849</b>	8,057,888,193	<b>86,753,948</b>	80,578,882

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 42. SHARE CAPITAL (Continued)

	Number of shares	Share Capital RMB'000
<b>Issued and fully paid:</b>		
At 1 January 2017	7,259,766,023	474,057
Issue of shares upon share subscription (note (a))	806,640,670	53,454
Shares repurchased and cancelled	(8,518,500)	(545)
At 31 December 2017 and 1 January 2018	<b>8,057,888,193</b>	<b>526,966</b>
Issue of shares upon share subscription (note (b))	<b>650,000,000</b>	<b>41,710</b>
Issue of shares upon conversion of CBs (note (c))	<b>70,544,156</b>	<b>4,495</b>
Shares repurchased and cancelled	<b>(103,037,500)</b>	<b>(6,999)</b>
At 31 December 2018	<b>8,675,394,849</b>	<b>566,172</b>

Notes:

- (a) 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.
- (b) On 22 January 2018, 650,000,000 ordinary shares of US\$0.01 each were issued and allotted at a price of HK\$9.6 per share, raising a total proceeds of approximately RMB5,060,159,000, net of share issue expense of approximately RMB60,822,000.
- (c) During the year ended 31 December 2018, CBs with principal amount US\$73,600,000 was converted into 70,544,156 ordinary shares of the Company at par at the conversion price of HK\$8.16 per ordinary share.

The Company does not have any share option scheme.

All shares issued rank pari passu in all respects with all shares then in issue.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 42. SHARE CAPITAL (Continued)

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\$	Share cancelled date
		Highest HK\$	Lowest HK\$		
25-Jun-18	1,660,000	6.90	6.66	11,311,000	11-Jul-18
26-Jun-18	2,690,500	7.11	6.60	18,605,000	11-Jul-18
27-Jun-18	2,054,000	7.15	6.83	14,276,000	11-Jul-18
28-Jun-18	3,968,000	7.30	6.87	27,948,000	11-Jul-18
29-Jun-18	2,988,000	7.40	7.10	21,987,000	11-Jul-18
3-Jul-18	2,330,000	7.50	6.99	17,084,000	16-Jul-18
4-Jul-18	3,705,000	7.45	7.23	27,298,000	16-Jul-18
5-Jul-18	3,570,000	7.40	7.12	26,125,000	16-Jul-18
6-Jul-18	2,496,000	7.60	7.32	18,796,000	16-Jul-18
9-Jul-18	1,920,000	7.72	7.56	14,750,000	24-Jul-18
10-Jul-18	1,594,000	7.84	7.67	12,355,000	24-Jul-18
11-Jul-18	1,870,000	7.75	7.59	14,381,000	24-Jul-18
12-Jul-18	5,138,500	7.70	7.55	39,090,000	24-Jul-18
13-Jul-18	6,923,500	8.00	7.65	54,354,000	24-Jul-18
31-Aug-18	1,000,000	6.65	6.57	6,618,000	17-Sep-18
3-Sep-18	622,500	6.65	6.60	4,133,000	17-Sep-18
4-Sep-18	168,000	6.70	6.65	1,124,000	17-Sep-18
5-Sep-18	1,793,000	6.82	6.79	12,198,000	17-Sep-18
6-Sep-18	2,482,500	6.85	6.80	16,987,000	17-Sep-18
7-Sep-18	3,622,000	6.87	6.83	24,846,000	17-Sep-18
10-Sep-18	6,390,000	6.87	6.75	43,849,000	24-Sep-18
11-Sep-18	9,952,000	6.80	6.74	67,557,000	24-Sep-18
12-Sep-18	10,500,000	6.80	6.72	71,164,000	24-Sep-18
13-Sep-18	4,000,000	6.88	6.79	27,424,000	24-Sep-18
14-Sep-18	19,600,000	6.10	5.75	115,318,000	24-Sep-18

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 43. 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.

#### (d) Investment revaluation reserve

As at 31 December 2018, the investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of investments in equity instruments as at FVTOCI.

### 44. 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 borrowing, short-term debentures and notes, medium-term debentures and bonds, guaranteed notes and CBs as disclosed in notes 34, 35, 36, 37, 38 and 39, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in note 42 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000 (Restated)
<b>Financial assets</b>		
Financial assets at amortised cost	<b>67,189,175</b>	–
Loan and receivables (including cash and cash equivalents)	–	48,222,019
Financial assets at FVTPL	–	57
Financial assets at FVTOCI		
– Equity instruments at FVTOCI	<b>908,170</b>	–
Available-for-sale investments	–	6,000
<b>Financial liabilities</b>		
Financial liabilities at FVTPL		
– Derivatives component of CBs	<b>415,195</b>	991,660
Other financial liabilities at amortised cost	<b>108,758,599</b>	100,240,919

#### (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 CBs. 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 2018

### 45. 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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
US\$	1,331,603	1,264,644	17,884,350	10,360,550
Hong Kong Dollar ("HK\$")	26,007	24,151	–	–
IDR	96,790	73,926	–	–

##### Sensitivity analysis

The Group is mainly exposed to US\$, HK\$ and IDR.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against the relevant foreign currencies 5% (2017: 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% (2017: 5%) against the relevant currency. For a 5% (2017: 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.

	2018 RMB'000	2017 RMB'000
Effect on post-tax profit:		
US\$ (note (i))	620,712	365,531
HK\$ (note (ii))	(920)	(1,008)
IDR (note (iii))	(3,630)	(2,772)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk (Continued)

##### (i) Currency risk (Continued)

###### *Sensitivity analysis (Continued)*

Notes:

- (i) 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.
- (ii) 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.
- (iii) 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.

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

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings, liability component of CBs, 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (c) Market risk (Continued)

##### (ii) Interest rate risk (Continued)

###### *Sensitivity analysis (Continued)*

If interest rates had been 25 basis points higher/lower and all other variables were held constant:

	2018 RMB'000	2017 RMB'000 (Restated)
Increase (decrease) in profit for the year:		
As a result of increase in interest rate	(50,597)	(10,574)
As a result of decrease in interest rate	50,597	10,574

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.

##### (iii) Other price risk

The Group is exposed to equity price risk through its investment in financial assets at FVTOCI. The Group's equity price risk is mainly concentrated on equity instrument operating in consultancy service industry sector quoted in the Stock Exchange.

###### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If the price of the respective equity instrument had been 10% (2017: nil) higher/lower, other comprehensive income for the year ended 31 December 2018 would increase/decrease by approximately RMB90,817,000 (2017: nil) as a result of the changes in financial assets at FVTOCI.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk

As at 31 December 2018, 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 respective recognised financial assets as stated in the consolidated statement of financial position

The credit risk of our Group mainly arises from loans to associates, trade receivables, bills receivables, loan and other receivables, restricted bank deposits and bank balances. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

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.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered loans to associates to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk (Continued)

*The Group's exposure to credit risk*

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by the management uses the Group's own days past due to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL	
		Trade receivables	Other financial assets
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	Lifetime ECL (simplified approach)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk.

*For the year ended 31 December 2018*

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables (note 1)	Performing	Lifetime ECL (simplified approach)	6,750,578	–	6,750,578
Trade receivables	Default	Lifetime ECL – credit impaired	6,725	(6,725)	–
Bills receivables (note 2)	Performing	12-month ECL	11,726,626	–	11,726,626
Other receivables	Performing	12-month ECL	1,765,654	–	1,765,654
Other receivables	Doubtful	Lifetime ECL – not credit impaired	324,166	(14,736)	309,430
Other receivables	Default	Lifetime ECL – credit impaired	23,722	(23,722)	–
				<u>(45,183)</u>	

Notes:

- For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status. The identified impairment loss is immaterial.
- The credit risk on bills receivables is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and thus the impairment provision recognised during the year was limited to 12-month ECL.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (d) Credit risk (Continued)

The Group has concentration of credit risk as 17% (2017: 19%) and 44% (2017: 48%) 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 receivables as the Group's largest bills receivable from bank represented 21% (2017: 23%) of the total bills receivables as at 31 December 2018. In addition, the Group's bills receivables from the top five major banks represented 41% (2017: 46%) of the total bills receivables as at 31 December 2018.

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, CBs, 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. FINANCIAL INSTRUMENTS (Continued)

#### (e) Liquidity risk management (Continued)

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.

	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 2018</b>							
Fixed-rate bank borrowings	3,827,181	2,627,440	6,999,171	404,125	14,427	13,872,345	13,096,540
Floating-rate bank borrowings	7,529,188	6,116,350	834,603	2,323,666	1,698,215	18,502,022	17,100,998
Fixed-rate other borrowing	50,825	51,668	1,442,667	-	-	1,545,160	1,366,569
Short-term debentures and notes	4,050,267	-	-	-	-	4,050,267	4,000,000
Medium-term debentures and bonds	1,080,872	1,098,787	3,666,988	41,552,461	-	47,399,108	42,830,014
Trade and bills payables	16,661,437	-	-	-	-	16,661,437	16,661,437
Other payables	9,612,324	-	-	-	-	9,612,324	9,612,324
Guaranteed notes	3,151,464	-	-	-	-	3,151,464	3,078,664
CBs	40,343	41,011	81,354	1,782,430	-	1,945,138	1,012,052
	46,003,901	9,935,256	13,024,783	46,062,682	1,712,642	116,739,264	108,758,599

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. 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 (Restated)</b>							
Fixed-rate bank borrowings	2,857,624	1,490,293	-	-	-	4,347,917	4,266,446
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	14,605,388	-	-	-	-	14,605,388	14,605,388
Guaranteed notes	2,007,956	-	-	-	-	2,007,956	1,957,399
CBs	52,393	53,261	105,654	2,420,209	-	2,631,517	1,095,225
	49,447,814	5,258,598	7,642,550	37,946,773	10,454,792	110,750,527	100,240,919
<b>Derivatives – gross settlement</b>							
Currency swaps							
– inflow	65,342	-	-	-	-	-	N/A
– outflow	(65,527)	-	-	-	-	-	N/A
	(185)	-	-	-	-	-	57

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.

For the year ended 31 December 2017, 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. 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 2018			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Financial assets at FVTOCI</b>				
Listed equity instrument	908,170	–	–	908,170
<b>Financial liabilities at FVTPL</b>				
– Derivatives component of CBs	–	415,195	–	415,195

	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 CBs	–	991,660	–	991,660

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 2018

### 45. 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
		31/12/2018 RMB'000	31/12/2017 RMB'000	
Financial asset at FVTOCI	Level 1	908,170	–	Quoted bid prices in an active market
Foreign currency swap contracts	Level 2	–	57	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)
Redemption option derivative of CBs	Level 3	161,740	80,880	Binomial option pricing model: Key inputs: risk free rate of 2.45% (2017: 2.20%), and effective interest rate of 8.97% (2017: 8.69%) and volatility of 55.54% (2017: 48.07%)
Conversion option derivative of CBs	Level 3	253,455	910,780	Binomial option pricing model: Key inputs: risk free rate of 2.45% (2017: 2.20%), and effective interest rate of 8.97% (2017: 8.69%) and volatility of 55.54% (2017: 48.07%)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. 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 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.

	31 December 2018		31 December 2017	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000 (Restated)	Fair value RMB'000 (Restated)
<b>Financial liabilities</b>				
<b>Listed</b>				
Medium-term bonds due after one year	25,889,594	25,774,590	28,847,057	29,247,217
<b>Unlisted</b>				
Medium-term bonds due after one year	15,187,663	15,104,037	7,424,814	7,259,213
Bank borrowings – due after one year	11,263,803	11,161,195	10,525,603	10,556,645
Other borrowing – due after one year	1,366,569	1,314,795	–	–
Liability component of CBs	1,012,052	1,002,270	1,095,225	1,068,286

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 45. 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 2018			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	25,774,590	–	–	25,774,590
Medium-term bonds due after one year – unlisted	–	15,104,037	–	15,104,037
Bank borrowings – due after one year	–	11,161,195	–	11,161,195
Other borrowing – due after one year	–	1,314,795	–	1,314,795
Liability component of CBs	–	1,002,270	–	1,002,270
	<b>25,774,590</b>	<b>28,582,297</b>	<b>–</b>	<b>54,356,887</b>

	As at 31 December 2017 (Restated)			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	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	–	10,556,645	–	10,556,645
Liability component of CBs	–	1,068,286	–	1,068,286
	<b>29,247,217</b>	<b>18,884,144</b>	<b>–</b>	<b>48,131,361</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, other borrowing and bank borrowings due after one year and liability component of CBs 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 2018

### 46. 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.

Consideration transferred	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 2018

### 46. 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	<u>(1,337,580)</u>
Goodwill arising on acquisition	<u>1,622,688</u>

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 these acquisitions 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	<u>(899,515)</u>
Net cash outflow arising on acquisition	<u>568,195</u>

Included in the profit for the year is a profit of approximately RMB19,678,000, attributable to the additional business generated by Hongchuang. Revenue for the year ended 31 December 2017 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 ended 31 December 2017 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 46. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

(a) *Hongchuang (Continued)*

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.

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.

### 47. DISPOSAL OF A SUBSIDIARY

On 30 June 2018, 濱州市沾化區匯宏新材料有限公司 (“Zhanhua Huihong New Material”), an indirect wholly-owned subsidiary of the Company, disposed of the entire issued share capital of 濱州市沾化區茂宏新材料有限公司 (“Zhanhua Maohong New Material”), a company directly wholly-owned by Zhanhua Huihong New Material, to an independent third party at a cash consideration of RMB2,950,000,000. RMB1,475,000,000 of the consideration was received during current year. The remaining balances of RMB590,000,000 and RMB885,000,000 will be settled on 30 June 2019 and 31 December 2019 respectively. The remaining balance in aggregate of RMB1,475,000,000 is guaranteed by the acquirer’s associated company which also is one of the major suppliers of the Group. The fair value of the consideration is assessed at net present value and discounted by weighted averaged borrowing costs of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 47. DISPOSAL OF A SUBSIDIARY (Continued)

#### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	3,182,302
Other receivables	298,828
Cash and cash equivalents	1,000
Net assets disposed of	3,482,130

#### Loss on disposal of a subsidiary

	RMB'000
Consideration received and receivable	2,833,358
Net assets disposed of	(3,482,130)
Loss on disposal of a subsidiary	(648,772)

#### Consideration of the disposal

	RMB'000
Consideration of the disposal	2,833,358
Imputed interest on unsettled consideration (note 8)	58,716
Less: cash consideration received during the year	(1,475,000)
Consideration receivable (included in other receivables)	1,417,074
Analysed for reporting purposes as:	
Current assets	1,417,074

#### Net cash inflow arising on disposal

	RMB'000
Cash consideration received	1,475,000
Less: cash and cash equivalents disposed of	(1,000)
	1,474,000

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 48. 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:

	2018 RMB'000	2017 RMB'000
Restricted bank deposits (note 30)	1,256,474	1,262,589
Property, plant and equipment (note 17)	9,282,147	9,307,202

### 49. OPERATING LEASES

#### The Group as lessee

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid under operating leases for premises	11,621	13,550

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:

	2018 RMB'000	2017 RMB'000
Within one year	8,672	5,741
In the second to fifth year inclusive	20,986	2,152
Over five years	48,958	–
	78,616	7,893

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 to twenty five years and rentals are fixed for an average term of two years to twenty five years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 49. OPERATING LEASES (Continued)

#### The Group as lessor

Rental income earned during the year was RMB15,976,000 (2017: RMB5,011,000). The property are expected to generate rental yields of 10.5% (2017: 4.8%) on an ongoing basis. All of the properties held have committed tenants for an average term of two to five years (2017: two years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	12,083	8,654
In the second to fifth year inclusive	13,714	8,654
	<b>25,797</b>	17,308

### 50. COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment – Contracted for but not provided	794,563	1,014,242

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 51. 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 ("Weiqiao Chuangye") (note i)	note iii
濱州魏橋科技工業園有限公司 ("Binzhou Industrial Park") (note i)	Controlled by Weiqiao Chuangye
山東銘宏紡織科技有限公司 ("Ming Hong Textile") (note i)	Controlled by Weiqiao Chuangye
鄒平魏橋再生資源利用有限公司 ("Zouping Weiqiao") (note i)	Controlled by Weiqiao Chuangye
凱斯曼秦皇島汽車零部件製造有限公司 ("Caseman")	Controlled by CITIC Group Corporation (note ii)
中信信託有限責任公司("中信信託")	Controlled by CITIC Group Corporation (note ii)
China CITIC Bank International ("CITIC Bank")	Controlled by CITIC Group Corporation (note ii)
中信銀行股份有限公司("中信銀行")	Controlled by CITIC Group Corporation (note ii)
濱州市公建投資開發有限公司 ("濱州投資")	Controlled by Weiqiao Chuangye
濱州市北海魏橋固廢處置有限公司 ("濱州固廢處置")	Controlled by Weiqiao Chuangye
山東瑞信招標有限公司("山東瑞信")	Controlled by Weiqiao Chuangye
沾化金沙供水有限公司 ("Jinsha Water Supply") (note i)	An associate of Weiqiao Chuangye
山東創新炭材料有限公司("創新炭材料")	An associate of a wholly-owned subsidiary of the Company
ABM	An associate of a wholly-owned subsidiary of the Company
GTS	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. CTI Capital Management Limited and its related company, CNCB (Hong Kong) Investment Limited, currently holding 877,184,826 shares of the Company, representing 10.04% of the total issued shares of the Company, are both indirect subsidiaries of CITIC Group Corporation and therefore CITIC Group Corporation is a connected person of the Group.
- iii. Mr. Zhang Shiping, the director and the controlling shareholder of the Company, has a significant non-controlling beneficial interest in Weiqiao Chuangye, and is also the director of Weiqiao Chuangye.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 51. RELATED PARTY TRANSACTIONS (Continued)

#### (a) (Continued)

During the year, the Group entered into the following transactions with related parties:

	Notes	2018 RMB'000	2017 RMB'000
Purchases of water			
Jinsha Water Supply	(b)	14,269	29,679
Purchases of bauxite			
ABM	(a)	685,170	2,796,270
GTS	(a)	9,360,681	–
Sales of steam			
Binzhou Industrial Park	(b)	22,794	24,310
Ming Hong Textile	(b)	4,682	1,961
濱州投資	(a)	19,845	–
Sales of electricity			
創新炭材料	(a)	3,542	–
濱州固廢處置	(a)	91	–
Sales of molten aluminum alloy			
Caseman	(b)	1,848,553	–
Legal and professional fee			
山東瑞信	(a)	5,004	–
Sales of raw materials			
Zouping Weiqiao	(a)	129	–
Rental expenses			
Weiqiao Chuangye	(a)	2,375	–
Bank interest income			
中信銀行	(a)	479	–
Interest expenses on bank borrowings			
CITIC Bank	(a)	67,582	–
中信銀行	(a)	171,698	–
Investment and wealth management service			
中信信託	(b), (c)	–	–

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.
- (c) An investment and wealth management cooperation framework agreement was entered on 3 December 2018 and no transaction incurred during the period from 3 December 2018 to 31 December 2018.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 51. RELATED PARTY TRANSACTIONS (Continued)

#### (a) (Continued)

The following balances were outstanding at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Bank balances		
CITIC Bank (note i)	93,963	—
中信銀行 (note ii)	78,119	—
Bank borrowings		
CITIC Bank (notes iii and v)	2,335,191	—
中信銀行 (notes iv and v)	7,180,666	—
Loans to associate		
ABM	754,952	716,394
Trade payables		
ABM	—	272,611
GTS	264,647	—
Jinsha Water Supply	424	1,197
Trade receivables		
濱州投資	4,563	—
Ming Hong Textile	102	—
Zouping Weiqiao	129	—
Prepayment		
Jinsha Water Supply	7,837	—
Contract liabilities		
Caseman	17,143	—

Notes:

- i. The bank balances of CITIC Bank were interest free.
- ii. The bank balances of 中信銀行 were interest bearing at normal interest rate of 0.3% per annum.
- iii. The bank borrowings of CITIC Bank were interest bearing at normal interest rates range from 5.9% to 6.5% per annum.
- iv. The bank borrowing of 中信銀行 was interest bearing at normal interest rate of 4.32% to 5.25% per annum.
- v. The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are fully exempt from the disclosure requirements in Chapter 14A.90 of the Listing Rules as the transaction terms are in normal commercial terms and are not secured by assets of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 51. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Compensation of key management personnel

	2018 RMB'000	2017 RMB'000
Short term employee benefit	5,803	6,875
Retirement benefits scheme contributions	68	65
	5,871	6,940

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:

	2018 RMB'000	2017 RMB'000
Weiqiao Chuangye	299,000	499,000

### 52. 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 2018, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB142,263,000 (2017: RMB153,736,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

### 53. 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, 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 was frozen as at 31 December 2017. On 24 October 2018, the Higher People's Court of Henan Xinxiang (the "the Higher People's Court") ordered The No. 4 Metallurgical Construction Company of China Limited to settle the labour service fee of the 115 engineering staff. As at 31 December 2018, the directors of the Company considered that no provision was required be made in the consolidated financial statements after the consideration of the Higher People's Court order issued on 24 October 2018 and the legal opinion obtained from the Company's legal counsel (2017: nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 54. 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.

	Non-cash changes						31 December 2018 RMB'000
	1 January 2018 RMB'000	Financing cash flows RMB'000	Issue of shares			Fair value change RMB'000	
			upon conversion of CBs RMB'000	Finance costs incurred RMB'000	Foreign exchange movements RMB'000		
Bank borrowings	20,054,751	10,070,407	-	-	72,380	-	30,197,538
Other borrowing	-	1,366,569	-	-	-	-	1,366,569
Liability component of CBs	1,095,225	-	(248,367)	98,971	66,223	-	1,012,052
Derivatives component of CBs	991,660	-	(224,881)	-	46,099	(397,683)	415,195
Short-term debentures and notes	3,000,000	953,965	-	46,035	-	-	4,000,000
Medium-term debentures and bonds	43,468,056	(731,768)	-	93,726	-	-	42,830,014
Guaranteed notes	1,957,399	989,278	-	17,500	114,487	-	3,078,664
Interest payable	1,521,194	(3,919,599)	-	4,177,157	-	-	1,778,752
	72,088,285	8,728,852	(473,248)	4,433,389	299,189	(397,683)	84,678,784

	Non-cash changes							31 December 2017 (Restated) RMB'000
	1 January 2017 (Restated) RMB'000	Financing cash flows RMB'000	Acquisition of subsidiaries RMB'000	Finance costs incurred RMB'000	Transaction cost allocated		Fair value change RMB'000	
					to derivatives component of CBs RMB'000	Foreign exchange movements RMB'000		
Bank borrowings	19,007,713	1,103,204	100,000	-	-	(156,166)	-	20,054,751
Liability component of CBs	-	1,106,843	-	12,450	-	(24,068)	-	1,095,225
Derivatives component 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	(3,993,894)	-	4,072,202	-	-	-	1,521,194
	76,741,195	(8,695,005)	100,000	4,114,839	10,390	(201,365)	18,231	72,088,285

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 55. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 RMB'000	2017 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		644	270
Investment in subsidiaries		11,199,239	10,720,309
Other receivables		754,952	–
Amounts due from subsidiaries	(i)	16,916,448	15,983,017
Financial assets at fair value through other comprehensive income		908,170	–
		<b>29,779,453</b>	<b>26,703,596</b>
<b>Current assets</b>			
Trade receivables		314,549	–
Prepayment and other receivables		1,494	4,495
Amounts due from subsidiaries	(i)	–	424,723
Other financial assets		–	57
Cash and cash equivalents		121,757	118,334
		<b>437,800</b>	<b>547,609</b>
<b>Current liabilities</b>			
Trade payables		9,030	–
Other payables		65,454	3,211,614
Amounts due to subsidiaries	(i)	–	2,176,191
Bank borrowings – due within one year		2,603,767	196,026
Income tax payable		22,959	–
Guaranteed notes		3,078,664	1,957,399
		<b>5,779,874</b>	<b>7,541,230</b>
<b>Net current liabilities</b>		<b>(5,342,074)</b>	<b>(6,993,621)</b>
<b>Total assets less current liabilities</b>		<b>24,437,379</b>	<b>19,709,975</b>
<b>Non-current liabilities</b>			
Bank borrowings – due after one year		2,417,190	2,356,713
Other borrowing – due after one year		1,366,569	–
Convertible bonds		1,012,052	1,095,225
Derivative component of convertible bonds		415,195	991,660
		<b>5,211,006</b>	<b>4,443,598</b>
<b>Net assets</b>		<b>19,226,373</b>	<b>15,266,377</b>
<b>Capital and reserves</b>			
Share capital		566,172	526,966
Reserves	(ii)	18,660,201	14,739,411
<b>Total equity</b>		<b>19,226,373</b>	<b>15,266,377</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 55. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

- (i) The amounts due from subsidiaries are unsecured, interest-free and repayable after one year. The fair value is estimated at RMB16,916,448,000 (2017: RMB15,983,017,000) by using the effective interest rate of 4.9% per annum.
- (ii) Movement in reserves

	Share premium RMB'000	Share reserve* RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	10,393,143	3,193,854	(97,096)	13,489,901
Loss and total comprehensive expenses for the year	–	–	(99,982)	(99,982)
Shares issued	4,615,950	–	–	4,615,950
Shares issue expenses	(1,440)	–	–	(1,440)
Dividend paid	–	–	(3,203,523)	(3,203,523)
Share repurchase and cancelled	(61,495)	–	–	(61,495)
At 31 December 2017 and 1 January 2018	<b>14,946,158</b>	<b>3,193,854</b>	<b>(3,400,601)</b>	<b>14,739,411</b>
Profit and total comprehensive income for the year	–	–	734,591	734,591
Issue of shares	5,079,271	–	–	5,079,271
Transaction costs attributable to issue of shares	(60,822)	–	–	(60,822)
Issue of shares upon conversion of convertible bonds	468,753	–	–	468,753
Dividend paid	–	–	(1,697,064)	(1,697,064)
Share repurchased and cancelled	(603,939)	–	–	(603,939)
At 31 December 2018	<b>19,829,421</b>	<b>3,193,854</b>	<b>(4,363,074)</b>	<b>18,660,201</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 2018

### 56. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2018 and 2017 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		2018 %	2017 %	
				2018 %	2017 %	2018 %	2017 %			
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 Harvest Winning Alumina Refinery	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
鄭平縣宏利熱電有限公司 Zouping Hongli Thermal Power Co., Ltd.*	PRC	Ordinary Shares	RMB1,817,065,373	-	-	100	100	100	100	Production and sale of electricity
鄭平縣宏茂新材料科技有限公司 Zouping Hongmao New Material Technology Co., Ltd.*	PRC	Ordinary Shares	RMB1,500,000,000	-	-	100	100	100	100	Manufacture and sale of aluminum products
鄭平縣宏正新材料科技有限公司 Zouping Hongzheng New Material Technology Co., Ltd.*	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
鄭平縣宏旭熱電有限公司 Zouping Hongxu Power Co., Ltd.*	PRC	Ordinary Shares	RMB8,200,000,000	-	-	100	100	100	100	Production and sale of electricity
鄭平縣匯聚新材料科技有限公司 Zouping Huiju New Material Technology Co., Ltd.*	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 2018

### 56. 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		2018 %	2017 %	
				2018 %	2017 %	2018 %	2017 %			
鄒平縣匯才新材料科技有限公司 Zouping Huicai New Material Technology Co., Ltd.*	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.	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.	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 New Material	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\$200,000,000	-	-	100	100	100	100	Financial leasing

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 56. 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		2018	2017	
				2018	2017	2018	2017			
%	%	%	%	%	%					
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
濱州宏振鋁業科技有限公司 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
山東宏創鋁業控股股份有限公司 ("Shandong Hongchuang") (Note ii)	PRC	Ordinary Shares	RMB926,400,000	-	-	28.18	28.18	28.18	28.18	Manufacture and sale of aluminum products
重慶魏橋金融保理有限公司 (Note i, note 2 and note 57)	PRC	Ordinary Shares	RMB500,000,000	-	-	55	-	55	-	Provision of financing

For identification purpose only.

Notes:

- i: New subsidiary acquired under common control 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 2018

### 56. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

The following subsidiaries had issued approximately RMB46,830,014,000 (2017: RMB46,468,056,000) of debt securities at the end of the year:

	Total and held by third parties	
	2018 RMB'000	2017 RMB'000
Shandong Hongqiao	32,117,123	28,777,053
Shandong Weiqiao	14,712,891	17,691,003

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	
		2018	2017
Sales of aluminum products	The PRC	4	4
Sales of scrap materials	The PRC	1	1
Capital investor	The PRC	1	1
Various trading business	The PRC	2	1
Energy enhancement solution services	The PRC	2	–
Delivery service	The PRC	1	–
Sales of alumina	Singapore	3	–
		14	7

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		(Loss) profit attributable to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	RMB'000		RMB'000	
		2018	2017	2018	2017	2018	2017	2018	2017
Hongchuang and its subsidiaries	PRC	71.82%	71.82%	71.82%	71.82%	(3,228)	14,133	971,555	974,783

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 56. 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

	2018 RMB'000	2017 RMB'000
Current assets	726,338	816,858
Non-current assets	1,016,662	714,471
Current liabilities	(361,843)	(142,278)
Non-current liabilities	(28,394)	(31,793)
Equity attributable to owners of the Company	381,208	382,475
Non-controlling interest	971,555	974,783
Revenue	1,521,143	1,004,079
Expenses	(1,525,638)	(984,401)
(Loss) profit for the year	(4,495)	19,678
(Loss) profit attributable to owners of the Company	(1,267)	5,545
(Loss) profit attributable to the non-controlling interest	(3,228)	14,133
(Loss) profit for the year	(4,495)	19,678
Other comprehensive expense attributable to owners of the Company	–	–
Other comprehensive expense attributable to the non-controlling interest	–	–
Other comprehensive expense for the year	–	–
Total comprehensive (expense) income attributable to owners of the Company	(1,267)	5,545
Total comprehensive (expense) income attributable to the non-controlling interest	(3,228)	14,133
Total comprehensive (expense) income for the year	(4,495)	19,678
Net cash inflows (outflows) from operating activities	20,349	(85,874)
Net cash (outflows) inflows from investing activities	(212,286)	329,536
Net cash outflows from financing activities	(46,448)	(163,035)
Net cash (outflows) inflows	(238,385)	80,627

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL

As mentioned in note 2, the acquisition of Chongqing Weiqiao has been accounted for business combination under common control. Accordingly, the assets and liabilities of Chongqing Weiqiao acquired by the Group have been accounted for at historical cost and the consolidated financial statements of the Group for period prior to the combination have been restated to include the consolidated financial position and results of operation of Chongqing Weiqiao on a combined basis. The details of the audited and restated balances are as follows:

The summarised results of operations for the year ended 31 December 2017 and the financial position as at 31 December 2017 and 1 January 2017 are set out below:

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Results of operations for the year ended 31 December 2017				
Revenue	93,312,652	–	–	93,312,652
Cost of sales	(78,428,941)	–	–	(78,428,941)
Gross profit	14,883,711	–	–	14,883,711
Other income and gains	3,945,187	48,942	–	3,994,129
Selling and distribution expenses	(269,603)	(612)	–	(270,215)
Administrative expenses	(2,062,327)	(20,882)	–	(2,083,209)
Other expenses	(5,676,945)	(1,931)	–	(5,678,876)
Finance costs	(4,080,113)	(829)	–	(4,080,942)
Changes in fair value of derivatives	(19,897)	–	–	(19,897)
Share of profits of associates	371,989	–	–	371,989
Profit before taxation	7,092,002	24,688	–	7,116,690
Income tax expenses	(1,785,170)	(3,783)	–	(1,788,953)
Profit for the year	5,306,832	20,905	–	5,327,737
Attributable to:				
Owners of the Company	5,118,566	11,498	–	5,130,064
Non-controlling interests	188,266	9,407	–	197,673
	5,306,832	20,905	–	5,327,737

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Results of operations for the year ended 31 December 2017 (Continued)				
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	(102,409)	–	–	(102,409)
Share of other comprehensive expense of associates	(38,910)	–	–	(38,910)
	(141,319)	–	–	(141,319)
Total comprehensive income for the year, net of income tax	5,165,513	20,905	–	5,186,418
Total comprehensive income for the year attributable to				
Owners of the Company	5,032,617	11,498	–	5,044,115
Non-controlling interests	132,896	9,407	–	142,303
	5,165,513	20,905	–	5,186,418
Earnings per share				
– Basic (RMB)	0.6970	0.0016	–	0.6986
– Diluted (RMB)	0.6966	(0.0014)	–	0.6952

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Financial position as at 31 December 2017				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	83,985,765	57,347	–	84,043,112
Intangible assets	13,972	–	–	13,972
Prepaid lease payments	3,806,787	–	–	3,806,787
Investment properties	150,931	–	–	150,931
Deposits paid for acquisition of property, plant and equipment	421,144	–	–	421,144
Deposits paid for acquisition of land	14,968	–	–	14,968
Deferred tax assets	1,784,856	–	–	1,784,856
Interests in associates	1,325,328	–	–	1,325,328
Goodwill	1,265,763	–	–	1,265,763
Available-for-sale investments	6,000	–	–	6,000
	92,775,514	57,347	–	92,832,861
<b>CURRENT ASSETS</b>				
Prepaid lease payments	85,902	–	–	85,902
Inventories	15,585,330	–	–	15,585,330
Trade receivables	2,211,734	–	–	2,211,734
Bills receivables	11,912,479	–	–	11,912,479
Prepayments, loan and other receivables	12,359,225	1,541,371	(1,054,500)	12,846,096
Other financial assets	57	–	–	57
Restricted bank deposits	1,262,589	–	–	1,262,589
Cash and cash equivalents	21,925,568	22,371	–	21,947,939
	65,342,884	1,563,742	(1,054,500)	65,852,126

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Financial position as at 31 December 2017 (Continued)				
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	16,060,100	1,054,500	(1,054,500)	16,060,100
Other payables and accruals	16,343,471	4,339	–	16,347,810
Bank borrowings – due within one year	9,529,148	–	–	9,529,148
Income tax payable	1,163,430	–	–	1,163,430
Short-term debentures and notes	3,000,000	–	–	3,000,000
Medium-term debentures and bonds – due within one year	7,196,185	–	–	7,196,185
Guaranteed notes	1,957,399	–	–	1,957,399
Deferred income	15,321	1,250	–	16,571
	55,265,054	1,060,089	(1,054,500)	55,270,643
<b>NET CURRENT ASSETS</b>	10,077,830	503,653	–	10,581,483
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	102,853,344	561,000	–	103,414,344
<b>NON-CURRENT LIABILITIES</b>				
Bank borrowings – due after one year	10,509,118	16,485	–	10,525,603
Liability component of convertible bonds	1,095,225	–	–	1,095,225
Derivatives component of convertible bonds	991,660	–	–	991,660
Deferred tax liabilities	505,125	272	–	505,397
Medium-term debentures and bonds – due after one year	36,271,871	–	–	36,271,871
Deferred income	263,479	23,542	–	287,021
	49,636,478	40,299	–	49,676,777
<b>NET ASSETS</b>	53,216,866	520,701	–	53,737,567

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Financial position as at 31 December 2017 (Continued)				
<b>CAPITAL AND RESERVES</b>				
Share capital	526,966	275,000	(275,000)	526,966
Reserves	50,706,364	11,386	275,000	50,992,750
Equity attributable to owners of the Company	51,233,330	286,386	–	51,519,716
Non-controlling interests	1,983,536	234,315	–	2,217,851
<b>TOTAL EQUITY</b>	<b>53,216,866</b>	<b>520,701</b>	<b>–</b>	<b>53,737,567</b>
Financial position as at 1 January 2017				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	86,658,456	48	–	86,658,504
Prepaid lease payments	3,066,503	–	–	3,066,503
Deposits paid for acquisition of property, plant and equipment	1,745,089	–	–	1,745,089
Deposits paid for acquisition of land	443,390	–	–	443,390
Deferred tax assets	557,322	–	–	557,322
Interests in associates	944,796	–	–	944,796
Goodwill	311,769	–	–	311,769
Other financial assets	14,631	–	–	14,631
	93,741,956	48	–	93,742,004
<b>CURRENT ASSETS</b>				
Prepaid lease payments	56,152	–	–	56,152
Inventories	17,143,324	–	–	17,143,324
Trade receivables	363,314	–	–	363,314
Bills receivables	9,721,942	–	–	9,721,942
Prepayments, loan and other receivables	8,242,544	232,569	(232,000)	8,243,113
Other financial assets	13,047	–	–	13,047
Restricted bank deposits	396,808	–	–	396,808
Cash and cash equivalents	12,842,380	299,267	–	13,141,647
	48,779,511	531,836	(232,000)	49,079,347

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 57. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

	The Group RMB'000 (as previously reported)	Chongqing Weiqiao RMB'000	Inter-company eliminations RMB'000	The Group RMB'000 (Restated)
Financial position as at 31 December 2017 (Continued)				
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	7,506,386	–	–	7,506,386
Other payables and accruals	12,603,276	7,088	(232,000)	12,378,364
Bank borrowings – due within one year	14,310,943	–	–	14,310,943
Other financial liabilities	1,691	–	–	1,691
Income tax payable	724,632	–	–	724,632
Short-term debentures and notes	11,000,000	–	–	11,000,000
Medium-term debentures and bonds				
– due within one year	731,664	–	–	731,664
Guaranteed notes	2,768,436	–	–	2,768,436
Deferred income	6,106	25,000	–	31,106
	49,653,134	32,088	(232,000)	49,453,222
<b>NET CURRENT LIABILITIES</b>	(873,623)	499,748	–	(373,875)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	92,868,333	499,796	–	93,368,129
<b>NON-CURRENT LIABILITIES</b>				
Bank borrowings – due after one year	4,696,770	–	–	4,696,770
Deferred tax liabilities	578,097	–	–	578,097
Medium-term debentures and bonds				
– due after one year	39,720,060	–	–	39,720,060
Guaranteed notes	2,070,436	–	–	2,070,436
Deferred income	114,668	–	–	114,668
	47,180,031	–	–	47,180,031
<b>NET ASSETS</b>	45,688,302	499,796	–	46,188,098
<b>CAPITAL AND RESERVES</b>				
Share capital	474,057	275,000	(275,000)	474,057
Reserves	44,324,255	(112)	275,000	44,599,143
Equity attributable to owners of the Company	44,798,312	274,888	–	45,073,200
Non-controlling interests	889,990	224,908	–	1,114,898
<b>TOTAL EQUITY</b>	45,688,302	499,796	–	46,188,098



## **Notes to the Consolidated Financial Statements (Continued)**

For the year ended 31 December 2018

### **58. COMPARATIVE FIGURES**

Except restatement of comparative figures as a result of business combination under common control, certain comparative figures in the consolidated financial statements have been reclassified to conform to current year's presentation.

### **59. EVENTS AFTER THE REPORTING PERIOD**

On 31 January 2019, the Company and Binzhou City Beihai Weiqiao Solid Waste Disposal Co., Ltd. ("Beihai Solid Waste"), which is owned as to 51% by Weiqiao Chuangye, entered into the industrial waste service agreement for a term ending on 31 December 2021, pursuant to which Beihai Solid Waste will provide industrial waste collection, transport, storage and disposal services to the Group. And on 31 January 2019, Shandong Hongqiao and Weiqiao Chuangye entered into the production water supply agreement for a term ending on 31 December 2021, pursuant to which Weiqiao Chuangye will supply water to the production bases of Shandong Hongqiao for production use. Further details are set out in the announcement of the Company dated 31 January 2019.

## REGISTERED OFFICES

*Registered Office*  
P.O. Box 31119  
Grand Pavilion  
Hibiscus Way  
802 West Bay Road  
Grand Cayman KY1-1205  
Cayman Islands

*Place of Business in Hong Kong*  
Suite 5108  
The Center  
99 Queen's Road, Central  
Hong Kong

## TRUSTEE AND PAYING AGENT

**The Bank of New York Mellon,  
London Branch**  
One Canada Square  
London E14 5AL  
United Kingdom

## TRANSFER AGENT AND REGISTRAR

**The Bank of New York Mellon SA/NV,  
Luxembourg Branch**  
Vertigo Building – Polaris  
2-4 rue Eugène Ruppert  
L-2453 Luxembourg

## LEGAL ADVISORS TO THE COMPANY

*As to U.S. federal and  
New York state law  
and Hong Kong Law*  
**Luk & Partners In  
Association with Morgan,  
Lewis & Bockius**  
Unit 2001, Level 20  
One International Finance  
Centre  
1 Harbour View Street  
Central,  
Hong Kong

*As to Cayman Islands Law*  
**Conyers Dill & Pearman**  
Cricket Square  
Hutchins Drive  
PO Box 2681  
George Town  
KY1-1111  
Cayman Islands

*As to BVI Law*  
**Conyers Dill & Pearman**  
29th Floor, One Exchange  
Square  
8 Connaught Place  
Central, Hong Kong

*As to PRC Law*  
**Allbright Beijing Law Office**  
6/F, Office Tower C1  
Oriental Plaza  
No.1, East Chong An Avenue  
Beijing

## LEGAL ADVISORS TO THE INITIAL PURCHASERS

*As to U.S. federal and New York State Law*  
**Allen & Overy**  
9th Floor  
Three Exchange Square  
Central Hong Kong

*As to PRC Law*  
**Jingtian & Gongcheng**  
34th Floor, Tower 3, China Central Place  
77 Jianguo Road, Chaoyang District  
Beijing, China

## LEGAL ADVISORS TO THE TRUSTEE

*As to New York Law*  
**Mayer Brown**  
16th-19th Floors, Prince's Building  
10 Chater Road  
Central  
Hong Kong

## INDEPENDENT ACCOUNTANTS

**SHINEWING (HK) CPA Limited**  
43/F, Lee Garden One  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

