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*The Company does not intend to make any public offering of securities in the United States. None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed to any connected persons of the Company.*

*This announcement is not for distribution, directly or indirectly, in or into the United States.*



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

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock Code: 01378)**

**OVERSEAS REGULATORY ANNOUNCEMENT**

This overseas regulatory announcement is issued pursuant to Rule 13.10B of The Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Reference is made to the announcements of China Hongqiao Group Limited (the “**Company**”) dated June 16, 2014 and June 20, 2014, respectively, in relation to the Notes Offer (the “**Announcements**”). Unless otherwise defined, terms defined in the Announcements shall have the same meanings when used herein.

The Company filed the attached offering circular in relation to the Notes Offer (“**Offering Circular**”) with the Singapore Exchange Securities Trading Limited on June 30, 2014.

This announcement and its attachment (collectively the “**Documents**”) do not constitute a prospectus under section 38D or section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong). The Documents have not been prepared in accordance with the requirements of the said Ordinance and have not been registered with the Registrar of Companies in Hong Kong. As such, these Documents do not constitute or form part of an offer or invitation, or solicitation or inducement of an offer, to any person in Hong Kong to subscribe for or purchase any securities of the Company or the Issuer. The Documents shall not be issued, circulated or distributed in Hong Kong in connection with any offer or invitation for subscription for or purchase of any securities of the Company or the Issuer, other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case 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 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” within the meaning of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and any rules made thereunder.

By order of the Board  
**China Hongqiao Group Limited**  
**Zhang Shiping**  
*Chairman*

Hong Kong, June 30, 2014

*As at the date of this announcement, the Board comprises nine Directors, namely Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo, Mr. Qi Xingli as executive Directors, Mr. Yang Congsen, Mr. Zhang Jinglei as non-executive Directors, and Mr. Chen Yinghai, Mr. Xing Jian and Mr. Han Benwen as independent non-executive Directors.*

## IMPORTANT NOTICE

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

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

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

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

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

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

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

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Deutsche Bank AG, Singapore Branch, Australia and New Zealand Banking Group Limited, Crédit Agricole Corporate and Investment Bank, Morgan Stanley & Co. International plc, Barclays Bank PLC and The Royal Bank of Scotland plc as Joint Bookrunners and Joint Lead Managers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

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STRICTLY CONFIDENTIAL

**US\$400,000,000**



**CHINA HONGQIAO GROUP LIMITED**

**中國宏橋集團有限公司**

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

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**7.625% Senior Notes due 2017**

**Issue Price: 100.00%**

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Our 7.625% Senior Notes due 2017 (the “Notes”) will bear interest from June 26, 2014 at 7.625% per annum payable semiannually in arrear on June 26 and December 26 of each year, beginning December 26, 2014. The Notes will mature on June 26, 2017.

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

At any time prior to June 26, 2017, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined herein) as of, plus accrued and unpaid interest, if any, to, the redemption date. At any time prior to June 26, 2017, we may redeem up to 35% of the Notes, at a redemption price of 107.625% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date in each case, using the net cash proceeds from sales of certain equity offerings. Upon the occurrence of a Change of Control (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The Notes will be (1) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) at least pari passu in right of payment against the Company with all other unsecured, unsubordinated Indebtedness (as defined herein) of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (3) 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 (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees. See “Risk Factors — Risks Relating to the Subsidiary Guarantees.”

For a more detailed description of the Notes, see the section entitled “Description of the Notes” beginning on page 119.

**Investing in the Notes involves risks. See the section entitled “Risk Factors” beginning on page 14.**

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

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold by the Initial Purchasers only outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions” beginning on page 192.

It is expected that the delivery of the Notes will be made on or about June 26, 2014 through the book-entry facilities of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”) against payment therefor in immediately available funds.

**Sole Global Coordinator**

**Deutsche Bank**

**Joint Bookrunners and Joint Lead Managers**

**Deutsche Bank ANZ Crédit Agricole CIB Morgan Stanley Barclays The Royal Bank of Scotland**

Offering Circular dated June 19, 2014.

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## NOTICE TO INVESTORS

This offering circular does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering circular or that the information contained in this offering circular is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, DEUTSCHE BANK AG, SINGAPORE BRANCH, 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, DEUTSCHE BANK AG, SINGAPORE BRANCH, 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 THAT IS NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

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

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

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

No representation or warranty, express or implied, is made by the Initial Purchasers (as defined in the section entitled "Plan of Distribution") or The Bank of New York Mellon, London Branch (the "Trustee" and the "Paying Agent") or The Bank of New York Mellon (Luxembourg) S.A. (the "Registrar" and the "Transfer Agent" and together with the Paying Agents, the "Agents") or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth

herein, and nothing contained in this offering circular is, or should be relied upon as, a promise or representation, whether as to the past or the future. The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors, to the fullest extent permitted by law, assume no responsibility for the accuracy or completeness of any such information or for any statement made or purported to be made by the Initial Purchasers or on our behalf in connection with the Company or the Subsidiary Guarantors or the issue and offering of the Notes. The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors have not independently verified the information contained herein (financial, legal or otherwise). The Initial Purchasers, the Trustee and the Agents and their respective affiliates or advisors accordingly, to the fullest extent permitted by law, disclaim all and any liability whether arising in contract or tort or otherwise which they might otherwise have in respect of this offering circular or any such statement.

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

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

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

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

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

## ENFORCEABILITY OF CIVIL LIABILITIES

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

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

We have been advised by our PRC legal advisors, Zong Heng Law Firm, that there is uncertainty as to whether the courts of the PRC would:

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

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

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

We have been advised by Conyers Dill & Pearman (Cayman) Limited that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the



enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

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

We have been advised by our Hong Kong legal advisors, Davis Polk & Wardwell, 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 if:

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

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

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

Solely for your convenience, this offering circular contains translations of Renminbi amounts into U.S. dollars at specified rates. Unless we indicate otherwise, translations of Renminbi into U.S. dollars have been made at the rate of RMB6.0537 to US\$1.00 (the noon buying rate in New York City on December 31, 2013 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rates is set forth in “Exchange Rate Information” in this offering circular. All such translations in this offering circular are provided solely for your convenience and we make no representation that Renminbi or U.S. dollar amounts referred to herein have been, could have been or could be converted into U.S. dollar or Renminbi, or vice versa, at such rate or at any other rate on such data or on any other date or at all. Certain financial amounts presented in this offering circular may not correspond to the financial statements included elsewhere in this offering circular or may not add up due to rounding. For further information relating to the exchange rates, see “Exchange Rate Information” in this offering circular.

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

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

## FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements may and often do differ materially from actual results. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this offering circular and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to our Group's business. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering circular might not occur. All forward-looking statements contained in this offering circular are qualified by reference to the cautionary statements set out in this section.

## DEFINITIONS

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

“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.
“Aluminum Technology” .....	濱州魏橋鋁業科技有限公司 (Binzhou Weiqiao Aluminum Technology Co., Ltd.), a limited liability company incorporated under the laws of the PRC on December 25, 2002, a subsidiary of Chuangye Group.
“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.
“Binzhou Yinhe” .....	濱州銀河國際物流有限公司 (Binzhou Yinhe International Logistics Co., Ltd.), a limited liability company incorporated under the laws of the PRC hired by the Company to provide certain transportation services.
“Board of Directors” or “Board” .	Our board of directors.
“BVI” .....	The British Virgin Islands.
“CAGR” .....	Acronym for compound annual growth rate.
“Chuangye Group” .....	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established under the laws of the PRC on April 14, 1998, the name of which was changed in 2003 from Shandong Weiqiao Textile Group Company Limited (山東魏橋紡織集團有限公司), a limited liability company converted from its predecessor, Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠). As of December 31, 2013, Mr. Zhang directly and indirectly held an approximately 31.59% equity interest in Chuangye Group.
“Companies Law” .....	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“Controlling Shareholders” .....	Has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang, Prosperity Eastern Limited, and Hongqiao Holdings who control the exercise of approximately 84.96% of the voting rights in a general meeting of our Company as of the date of this offering circular.

“Convertible Bonds” .....	The US\$150,000,000 6.5% convertible bonds due 2017 issued by the Company on April 10, 2012.
“CRU Group” .....	A market analysis and consulting company, founded in 1969, focusing on the global metals, mining and fertilizer industries.
“CSRC” .....	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC.
“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.
“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.
“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 of our Company.
“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.
“Huibin Dyeing” .....	山東慧濱棉紡漂染有限公司 (Shandong Huibin Dyeing Co., Ltd.), a limited liability company established under the laws of the PRC on August 3, 2001 in the PRC.

“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 approximately US\$1 billion and in which the Company holds a 60% interest.
“J.P. Morgan 2012 Facility” .....	The term loan facility under the facility agreement dated September 7, 2012 entered into by, among others, JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch as facility agent and security agent, certain lenders, and Shandong Hongqiao, as borrower.
“J.P. Morgan 2013 Facility” .....	The term loan facility under the facility agreement dated January 25, 2013 entered into by, among others, JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch as facility agent and security agent, certain lenders, and Shandong Hongqiao, as borrower, and the Company, Hongqiao Hong Kong, Hongqiao Investment and Hongqiao Trading, as original guarantors.
“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.
“Marine Chemical” .....	濱州海洋化工有限公司 (Binzhou Marine Chemical Co., Ltd.), a limited liability company, which was established in the PRC on March 2, 2006 and disposed of by our Group pursuant to an agreement dated December 28, 2009 among Shandong Hongqiao, Huibin Dyeing, Marine Chemical, Profit Long Investment and Chuangye Group.
“Mr. Zhang” .....	張士平, Mr. Zhang Shiping, an executive Director of our Company and one of our Controlling Shareholders. Mr. Zhang is the husband of Ms. Zheng, the father of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the father-in-law of Mr. Yang Congsen.

“Ms. Zheng” .....	鄭淑良, Ms. Zheng Shuliang, the wife of Mr. Zhang, the mother of Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong and the mother-in-law of Mr. Yang Congsen.
“NDRC” .....	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC).
“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).
“Profit Long Investment” .....	保恒俐投資有限公司 (Profit Long Investment Limited), a company incorporated in Hong Kong on September 19, 1996 and wholly owned by Mr. Zhang until September 19, 2011.
“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.
“Reorganization” .....	The reorganization arrangements undergone by our Group in preparation for the listing of the Shares on the Hong Kong Stock Exchange Limited.
“SAFE” .....	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC).
“Securities and Futures Commission” or “SFC” .....	The Securities and Futures Commission of Hong Kong.
“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” .....	山東宏橋新材料有限公司 (Shandong Hongqiao New Material Co., Ltd., previously known as Shandong Weiqiao Dyeing Company Limited (山東位橋染織有限公司)), a limited liability company established in the PRC on July 27, 1994 and an indirect wholly-owned subsidiary of our Company.
“Share(s)” .....	Ordinary share(s) with a nominal value of US\$0.01 each in the share capital of our Company.



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

## GLOSSARY

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

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

“utilization rate” .....

Utilization rate is calculated by dividing the production volume for the relevant year by the weighted average designed annual production capacity as of the end of the relevant year. With respect to production capacity, a 100% utilization rate assumes a constant electric current efficiency and a constant quality of voltage. If the electric current efficiency or the quality of voltage improves, the actual utilization rate may exceed 100%.

## SUMMARY

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

### Overview

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. We were ranked No.5 worldwide and No.2 in China in terms of output of aluminum products in 2013 by CRU Group. As of December 31, 2013, we were ranked No.3 in China and No.1 among all non-state owned aluminum manufacturers in China in terms of production capacity by Antaika. We have vertically integrated operations that cover the entire aluminum industry value chain consisting of production facilities for alumina, molten aluminum alloy and aluminum alloy ingot, 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 electricity locally. We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes raw material suppliers, and local down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. All of our manufacturing bases and one of our main electricity and alumina suppliers, Gaoxin, are in close geographic proximity to each other (within 80 km of 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 four manufacturing bases, in Zouping, Weiqiao, Binzhou and Huimin, respectively. Our weighted average production capacity of aluminum products was approximately 1.5 million tons, 1.7 million tons and 2.4 million tons for the years ended December 31, 2011, 2012 and 2013, respectively, with utilization rates of approximately 105.7%, 104.6% and 99.4%, respectively, during the respective years. As of December 31, 2013, we had a designed annual production capacity of approximately 3.0 million tons. We expect our designed annual production capacity of aluminum products to reach 3.5 million tons by the end of 2014.

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

We have achieved significant growth in our sales volume of aluminum products since our inception. We sold approximately 1.6 million tons, 1.8 million tons and 2.4 million tons of aluminum products for the years ended December 31, 2011, 2012 and 2013, respectively, and generated revenue of approximately RMB22,928.4 million, RMB24,266.1 million, RMB29,227.6 million (US\$4,828.1 million) for the respective years from sales of aluminum products. During the same years, we achieved net profit of approximately RMB5,875.4 million, RMB5,452.6 million, RMB5,563.8 million (US\$919.1 million), respectively.

## **Our Competitive Strengths**

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

- Established market position in the Chinese aluminum industry with solid growth profile and sustainable and resilient profitability;
- Vertically integrated business model providing significant cost advantages;
- High quality of portfolio of assets and low cost-structure;
- Strategic location benefitting from a symbiotic relationship within the end-to-end aluminum industry cluster;
- Diversified financing channels with prudent financial management; and
- Experienced management team with established track record.

## **Our Strategies**

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

- Continue to expand production capacity and increase our captive power generation;
- Further improve cost structure and achieve additional cost reductions;
- Further enhance vertical integration to capture additional cost advantages and further strengthen our competitiveness in the market;
- Enhance product research and development capabilities; and
- Increase our marketing and sales efforts.

## **Recent Developments**

### ***Entered into a Memorandum of Understanding for a Proposed Acquisition***

On May 29, 2014, we entered into a memorandum of understanding (the “MOU”) with a company organized under the laws of Bermuda (the “Target Company”) and its existing shareholders (the “Existing Shareholders”), and Winning Logistics (Africa) Company Limited (“Winning”, together with the Company, the “Consortium”). The Target Company in the Republic of Guinea currently holds the right to develop and produce bauxite from a project for a term of 25 years (2010-2035) in the Republic of Guinea from a deposit of a total resource base of 2.2 billion tons of bauxite of which 624 million tons are classified as measured and indicated.

Pursuant to the MOU, the Target Company and the Existing Shareholders have expressed their intention to sell and the Consortium has expressed its intention to acquire the entire issued shares of Target Company (or if applicable, a holding company to be established, the “Newco”) by itself or its affiliates (the “Proposed Acquisition”) at a proposed consideration of US\$121 million. After the completion of the Proposed Acquisition, the Target Company (or if applicable, the Newco) will be held as to 90% and 10% by us (or our affiliates) and Winning (or its affiliates), respectively.

The MOU is not legally binding upon nor enforceable against the Company, the Target Company and its Existing Shareholders and Winning. The Proposed Acquisition contemplated under the MOU is subject to the entering into of the definitive agreement by the parties and the relevant terms and conditions have not yet been finalized and therefore the Proposed Acquisition may or may not be consummated and, if consummated, may be on terms different from those described above.

### ***Operating Performance***

The spot market prices for aluminum products in China continued to fall in the first quarter of 2014. Although prices have then rebounded since April 2014, they remained at levels below those seen in 2013. See “Risk Factors —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.”

### ***Recent Material Term Loan Facility Agreements***

On June 4, 2014, Shandong Hongqiao entered into a facility agreement with, among others, The Royal Bank of Scotland plc (“RBS”) as facility agent (the “RBS 2014 Facility”), pursuant to which a syndicate of lenders agreed to advance to Shandong Hongqiao term loans of up to US\$580 million for the purpose to refinance the existing facilities, namely J.P. Morgan 2012 Facility and J.P. Morgan 2013 Facility and the general corporate requirements. See the section headed “Description of Other Material Indebtedness—Term Loan Facility Agreements—The RBS 2014 Facility” for further information.

On March 3, 2014, the Indonesian Alumina Joint Venture Company entered into a facility agreement with, among others, PT Bank DBS Indonesia as Agent, pursuant to which a syndicate of lenders agreed to advance to our Indonesian Alumina Joint Venture Company a term loan facility with an amount up to US\$400 million (the “DBS 2014 Facility”) for the purpose of funding the construction and development of an alumina refinery and associated facilities and infrastructure, which is guaranteed by our Company. See “Description of Other Material Indebtedness—Term Loan Facility Agreements—The DBS 2014 Facility” for further information.

### ***Announcement of Payment of Dividend for 2013***

During our annual general meeting on May 16, 2014, our shareholders approved for a payment of a final dividend of HK\$27.0 cents per share for 2013.

**General Information**

Our Company was incorporated in the Cayman Islands on February 9, 2010 as an exempted company with limited liability, with registered number OI-236994. Our principal place of business in China is at Huixian One Road, Zouping Economic Development District, Zouping County, Shandong Province, PRC. Our place of business in Hong Kong is at Suite 5108, The Center, 99 Queen's Road, Central, Hong Kong. Our registered office is located at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. Our website is <http://www.hongqiaochina.com>. Information contained on our website does not constitute a part of this offering circular.

## THE OFFERING

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

Issuer .....	China Hongqiao Group Limited (the “Company”).
Notes offered .....	US\$400,000,000 aggregate principal amount of 7.625% Senior Notes due 2017 (the “Notes”).
Offering Price .....	100.00% of the principal amount of the Notes.
Maturity Date .....	June 26, 2017.
Interest .....	The Notes will bear interest from and including June 26, 2014 at the rate of 7.625% per annum, payable semi-annually in arrear.
Interest Payment Dates .....	June 26 and December 26 of each year, commencing December 26, 2014.
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>• at least pari passu in right of payment with 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 therefor, including the obligations under the J.P. Morgan Facility Agreements; 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.

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

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

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

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

Ranking of Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- ranks at least 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, including the obligations under the J.P. Morgan Facility Agreements; 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\$392 million. The Company intends to apply the net proceeds from this offering primarily 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”).

Optional Redemption .....

At any time prior to June 26, 2017, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium (as defined herein) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to June 26, 2017, the Company may 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 107.625% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

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, 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 .....	<p>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:</p> <ul style="list-style-type: none"> <li>• Incur or guarantee additional indebtedness and issue disqualified or preferred stock;</li> <li>• declare dividends on its capital stock or purchase or redeem capital stock;</li> <li>• make investments or other specified restricted payments;</li> <li>• issue or sell capital stock of Restricted Subsidiaries;</li> <li>• guarantee indebtedness of the Company or Subsidiary Guarantors;</li> <li>• sell assets;</li> <li>• create liens;</li> <li>• enter into sale and leaseback transactions;</li> <li>• enter into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;</li> <li>• enter into transactions with shareholders or affiliates; and</li> </ul>

- effect a consolidation or merger.

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

Transfer Restrictions .....	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration .....	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will initially be represented by one or more permanent global notes registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.
Book-Entry Only .....	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “Description of the Notes.”
Delivery of the Notes .....	The Company expects to make delivery of the Notes, against payment in same-day funds, on or about June 26, 2014, which the Company expects will be the fifth business day following the date of this offering circular referred to as “T+5.” You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”
Trustee and Paying Agent .....	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent .....	The Bank of New York Mellon (Luxembourg) S.A.
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.
Ratings .....	The Notes have been provisionally rated “BB” by Standard and Poor’s Ratings Services and “BB” by Fitch Ratings. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.

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 .....	<u>ISIN</u>	<u>Common Code</u>
	XS1081333921	108133392

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

## SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the following summary financial information from our audited consolidated financial statements for the years ended and as of December 31, 2011, 2012 and 2013 all set forth elsewhere in this offering circular. These have been prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions. You should read the summary financial information below in conjunction with our consolidated financial statements. Historical results are not necessarily indicative of results that may be achieved in the future.

### Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Revenue .....	23,626,031	24,804,742	29,404,462	4,857,271
Cost of sales .....	(15,449,645)	(16,801,294)	(21,261,660)	(3,512,176)
Gross profit .....	8,176,386	8,003,448	8,142,802	1,345,095
Other income and gain and loss .....	311,960	422,439	941,621	155,544
Distribution and selling expenses .....	(44,054)	(58,667)	(60,128)	(9,932)
Administrative expenses .....	(167,033)	(306,068)	(440,171)	(72,711)
Finance costs .....	(300,819)	(642,731)	(1,359,200)	(224,524)
Other expenses .....	(22,569)	(20,121)	(9,125)	(1,507)
Changes in fair value of compound derivative .....	—	2,253	163,596	27,024
Profit before taxation .....	7,953,871	7,400,553	7,379,395	1,218,989
Income tax expense .....	(2,078,461)	(1,947,961)	(1,792,946)	(296,173)
Other comprehensive income .....	—	—	(22,689)	(3,748)
Profit and other comprehensive income for the year .....	<u>5,875,410</u>	<u>5,452,592</u>	<u>5,563,760</u>	<u>919,068</u>
Profit and other comprehensive income for the year attributable to				
Owners of the Company .....	5,875,410	5,452,592	5,579,062	921,595
Non-controlling interests .....	—	—	(15,302)	(2,527)
	<u>5,875,410</u>	<u>5,452,592</u>	<u>5,563,760</u>	<u>919,068</u>
Earnings per share				
Basic (RMB) .....	<u>1.03</u>	<u>0.93</u>	<u>0.95</u>	<u>0.16</u>
Diluted (RMB) .....	<u>N/A</u>	<u>0.92</u>	<u>0.91</u>	<u>0.15</u>
<b>Other financial data (unaudited):</b>				
EBITDA <sup>(1)</sup> .....	9,091,881	9,376,696	10,752,231	1,776,142
EBITDA margin <sup>(2)</sup> .....	38.5%	37.8%	36.6%	36.6%
Total debt <sup>(3)</sup> .....	7,192,203	16,550,093	30,557,936	5,047,811
Net debt <sup>(4)</sup> .....	(307,060)	6,503,062	22,525,290	3,720,913
Total debt/EBITDA .....	0.8x	1.8x	2.8x	2.8x
Net debt/EBITDA .....	(0.0x)	0.7x	2.1x	2.1x
EBITDA/Finance cost .....	30.2x	14.6x	7.9x	7.9x

## Statements of Financial Position

	At December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment .....	16,424,458	26,711,299	39,996,661	6,606,978
Prepaid lease payments — non-current portion .....	937,128	1,044,404	1,138,979	188,146
Deferred tax assets .....	43,616	57,495	134,164	22,162
Deposits paid for acquisition of property, plant and equipment .....	1,400,011	1,705,469	2,040,102	337,001
	<u>18,805,213</u>	<u>29,518,667</u>	<u>43,309,906</u>	<u>7,154,287</u>
<b>CURRENT ASSETS</b>				
Prepaid lease payments — current portion ..	19,726	22,394	25,160	4,156
Inventories .....	1,908,646	3,110,727	10,136,223	1,674,385
Trade receivables .....	1,438	43,672	160,935	26,585
Bills receivable .....	1,312,960	1,319,684	2,048,498	338,388
Prepayments and other receivables .....	121,802	314,542	1,465,168	242,028
Restricted bank deposits .....	14,468	872,088	1,670,576	275,959
Bank balances and cash .....	7,484,795	9,174,943	6,362,070	1,050,939
	<u>10,863,835</u>	<u>14,858,050</u>	<u>21,868,630</u>	<u>3,612,440</u>
<b>CURRENT LIABILITIES</b>				
Trade payables .....	1,216,259	1,097,744	1,995,649	329,658
Bills payable .....	—	200,000	—	—
Other payables .....	2,644,583	3,871,241	5,344,024	882,770
Income tax payable .....	137,879	244,895	353,104	58,329
Bank borrowings — due within one year ....	3,210,610	6,659,235	9,565,774	1,580,153
Other borrowings — due within one year ...	—	—	95,000	15,692
Short-term debentures .....	—	—	4,000,000	660,753
Held-for-trading financial liabilities .....	—	1,084	5,278	872
	<u>7,209,331</u>	<u>12,074,199</u>	<u>21,358,829</u>	<u>3,528,227</u>
<b>NET CURRENT ASSETS</b> .....	<u>3,654,504</u>	<u>2,783,851</u>	<u>509,801</u>	<u>84,213</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> .....	<u>22,459,717</u>	<u>32,302,518</u>	<u>43,819,707</u>	<u>7,238,500</u>
<b>CAPITAL AND RESERVES</b>				
Share capital .....	386,206	386,206	386,206	63,797
Share premium and reserves .....	18,010,828	21,927,049	26,288,167	4,342,496
Equity attributable to owners of the Company .....	18,397,034	22,313,255	26,674,373	4,406,293
Non-controlling interests .....	—	24,642	208,172	34,387
<b>TOTAL EQUITY</b> .....	<u>18,397,034</u>	<u>22,337,897</u>	<u>26,882,545</u>	<u>4,440,680</u>
<b>NON-CURRENT LIABILITIES</b>				
Bank borrowings — due after one year .....	3,981,593	7,443,657	9,655,059	1,594,902
Other borrowings — due after one year .....	—	—	235,000	38,819
Medium-term debentures .....	—	1,486,640	6,189,548	1,022,441
Deferred tax liabilities .....	81,090	73,763	40,000	6,608
Convertible bonds — liability component ...	—	729,411	750,001	123,891
Convertible bonds — derivative component	—	231,150	67,554	11,159
	<u>4,062,683</u>	<u>9,964,621</u>	<u>16,937,162</u>	<u>2,797,820</u>
	<u>22,459,717</u>	<u>32,302,518</u>	<u>43,819,707</u>	<u>7,238,500</u>

- (1) EBITDA refers to our profit from continuing operations before interest income/expense, amortization of prepaid lease payments, income tax expense and depreciation. 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. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

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

	<b>For the year ended December 31,</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>
	<b>(RMB)</b>	<b>(RMB)</b>	<b>(RMB)</b>	<b>(US\$)</b>
	<b>(in thousands)</b>			
Profit and other comprehensive income for the year .....	5,875,410	5,452,592	5,563,760	919,068
Interest income .....	(11,156)	(28,555)	(72,181)	(11,923)
Other comprehensive income.....	—	—	(22,689)	(3,748)
Finance costs .....	(300,819)	(642,731)	(1,359,200)	(224,524)
Taxation .....	(2,078,461)	(1,947,961)	(1,792,946)	(296,174)
Depreciation and amortization .....	(848,347)	(1,361,967)	(2,085,817)	(344,552)
<b>EBITDA</b> .....	<b>9,091,881</b>	<b>9,376,696</b>	<b>10,752,231</b>	<b>1,776,142</b>

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



## RISK FACTORS

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

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

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

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

Our business is sensitive to fluctuations in the prices of aluminum products. Like most aluminum producers in China, we price our aluminum products primarily by reference to spot market prices. The average prices (not including taxes) of aluminum ingots labelled as A00 released by Yangtze River Non-ferrous Metals Spot Market were approximately RMB14,387 per ton, RMB13,353 per ton and RMB12,385 (US\$2,046) per ton for 2011, 2012 and 2013, respectively, according to Antaike. Our gross profit margin for 2011, 2012 and 2013 was 34.6%, 32.3% and 27.7%, respectively, consistent with the historical price movements of aluminum prices during such three years. Any continuing fall in such aluminum prices (as was the case in the first quarter of 2014) may have an adverse impact on our gross profit margin, and consequently our gross profit and net profit. The prices we receive are dependent upon spot market prices and upon numerous factors beyond our control. We attempt to pass pricing changes to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price changes or any limitation or delay in our passing through price changes could adversely affect our profit margins. Fluctuations in the market prices of aluminum products may affect our results of operations. Details of historical price movements of aluminum products are set out in the section headed "Industry Overview" in this offering circular.

The prices of aluminum products have historically fluctuated in response to market forces, such as global production, refining and smelting production, global and PRC economic conditions and industrial 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 example, for 2011, 2012 and 2013, the average selling price of our aluminum products per ton was approximately RMB14,458, RMB13,297 and RMB12,252 (US\$2,024), respectively. The average selling price of our aluminum products decreased from 2011 to 2013 was primarily due to the uncertainties in world economy, including the economic crisis in Europe and its negative impact on the PRC economy. Any sustained decline in the prices of aluminum products in the future is expected to have a negative impact on our financial condition and results of operations.

In addition, the prices of our raw materials fluctuate from time to time. Even if there is an increase in the market price of our products, it may not be enough to offset for 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. Furthermore, 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 or our alumina production facility could materially and adversely affect our business, financial condition and results of operations.***

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

Our operations may be disrupted for other reasons as well. For example, if we fail to procure adequate raw materials or electricity for our production activities or at all, our operations will be disrupted.

In addition, 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.

***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 66.6%, 70.6% and 67.5% of our total purchase cost of raw materials for 2011, 2012 and 2013, 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 RMB2,308 per ton, RMB2,232 per ton and RMB2,135(US\$353) per ton for 2011, 2012 and 2013, respectively. Although prices were slightly declining during past three years, there is no assurance the price of alumina will continue declining in the future. 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. For example, although we have established our Indonesian Alumina Joint Venture Company, Indonesia imposed a ban on export of bauxite in January 2014. 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 will continue to procure a substantial proportion of alumina and electricity from Gaoxin. If Gaoxin is unable or unwilling to supply alumina or electricity to us at commercially acceptable terms, or at all, or if there is any material adverse change in Gaoxin's business, financial position or results of operation, our operations would be disrupted, and our business, financial condition and results of operations would be materially and adversely affected.***

Alumina and electricity are two principal cost components of our cost of sales. Gaoxin was our largest supplier during 2011, 2012 and 2013, accounting for approximately 61.6%, 42.8% and 26.0%, respectively, of our total procurement (including both alumina and electricity) during such years. Although we also procured alumina from other independent third parties and through our in-house production, nonetheless, we expect to continue to purchase a substantial proportion of alumina from Gaoxin and the other suppliers for the foreseeable future. In addition, pursuant to the alumina supply agreement between Gaoxin and us, Gaoxin agreed to provide us with price discounts with reference to the sales price of alumina supplied by Gaoxin to other independent third parties in early January of the relevant year, which will be determined through negotiation. If Gaoxin is unwilling to provide us such discount in the future, our cost of sales may increase and our results of operation and financial condition may be adversely affected.

In addition, Gaoxin started to supply electricity to us in July 2008 and has been our sole external electricity supplier since January 2010.

If there is any material adverse change in Gaoxin's business, financial condition or results of operations, or if it enters into bankruptcy proceedings, we may not be able to recover such deposit or prepayments, and our business, financial condition and results of operations could be materially and adversely affected.

If Gaoxin is unwilling or unable to provide us with alumina and electricity in required quantities and at commercially acceptable prices, or if Gaoxin is 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 Gaoxin does not fully comply with relevant PRC laws, rules or regulations, or if Gaoxin is 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 Gaoxin's business, financial condition and results of operations, we may be unable to find alternative sources at the same price level offered by Gaoxin 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.

***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 the 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 and Commonwealth of Australia. In the future, we may also expand our procurement scope to Africa at a proper timing to acquire local inexpensive good quality bauxite. See "Recent Development— Entered into a Memorandum of Understanding for a Proposed Acquisition." 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 recently imposed an export ban of the unprocessed ores, nickel and bauxite, which went into effect January 12, 2014 (Indonesia's Law No. 4/2009 on Minerals and Coal Mining). The export of ores that are not processed to the required levels is now 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. The recent export ban 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 Indonesia or other 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. Future environmental regulations 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.

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. These costs of all such matters have not been material to net income (loss) in the past. However, future remedial requirements at currently owned or operated properties or adjacent areas could result in significant liabilities.

***We may not be able to expand successfully.***

Our growth prospects and future profitability depend on, among other matters, our ability to successfully increase our production capability and capacity, either generally or with respect to demand from customers. As such, we have expanded and intend to continue to expand our operations, including to other geographical locations outside of the PRC, and such expansion has placed, and will continue to place, substantial demands on our managerial, operational, financial, technological and other resources.

For example, from January 1, 2011 through December 31, 2013, our designed annual aluminum production capacity increased from approximately 1.2 million tons to approximately 3.0 million tons. We are also developing our production capacity for advanced aluminum fabrication products such as aluminum foil, aluminum alloy casting-rolling products and high precision aluminum plate and stripe products. We have been constructing new thermal power station units to expand our electricity production capacity, which we expect to increase to approximately 5,040 MW by the end of 2014. We have also begun producing alumina in our in-house facility. In addition, we may invest or acquire other downstream or upstream businesses in the PRC or overseas. On December 27, 2012, we entered into a joint venture agreement with Winning Investment, PT. Cita and PT. Danpac in respect to establishing a joint venture company for an alumina production plant in Indonesia. On May 29, 2014, we entered into a non-binding MOU with the Target Company and Winning, pursuant to which we and Winning intend to acquire the issued shares of the Target Company at a proposed consideration of US\$121 million. The Target Company is primarily engaged in bauxite mining business in the Republic of Guinea and currently holds the right to develop and produce bauxite from a project for a term of 25 years from 2010 to 2035. For details of the MOU, see “— Recent Development”.

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.

In particular, the PRC government has enacted since April 2011 prohibitions on the expansion of electrolytic aluminum manufacturing facilities and the construction of new electrolytic aluminum manufacturing facilities. See “Industry Overview — Competition Landscape” and “Regulation Overview — Entry Conditions and Industry Policies.” Although we believe that these will not restrict our current expansion plans, we cannot assure you that we will not be prevented from expanding our aluminum products manufacturing facilities or constructing additional such facilities in the future by similar regulations.

Furthermore, we cannot assure you we have extensive experience and expertise in related upstream business and developing, manufacturing or marketing any alumina products in the downstream chain of the aluminum industry in the PRC, and 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. To accommodate our growth, 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 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 60% interest. In May 2014, we entered into a memorandum of understanding for the potential opportunity to develop and produce bauxite from a project in the Republic of Guinea. See “Business—Recent Developments.”

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 the joint venture company 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 our joint venture company. 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 arrangement, 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 65.1%, 60.6% and 64.0% of our revenue of continuing operations for 2011, 2012 and 2013, respectively. Our largest customer accounted for approximately 33.5%, 33.6% and 39.1% of our revenue of continuing operations for the same years. We have relatively short relationship histories with some of our top customers.

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

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

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

***We derive a significant portion of our revenue of aluminum products from Zouping County, Shandong Province through the sales of molten aluminum alloy.***

We are headquartered in Zouping County, Shandong Province, which is one of the major aluminum product manufacturing bases in China. There are a number of downstream aluminum product manufacturers based in Zouping County. In particular, all of our molten aluminum alloy customers are based in Zouping County and in close proximity to our relevant manufacturing bases. Our revenue generated from sales of molten aluminum alloy accounted for approximately 74.0%, 70.7% and 80.5% of our total revenue of aluminum products for 2011, 2012 and 2013, respectively. If demand for our molten aluminum alloy in Zouping County does not increase in line with our business expansion or if such demand decreases, we will have to look for alternative customers for our other aluminum products outside Zouping County. 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 one single transport company 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. Binzhou Yinhe was our sole service provider for the delivery of our molten aluminum alloy products during the three years ended December 31, 2013, and we expect to rely on Binzhou Yinhe exclusively for delivery of molten aluminum alloy products in the near future. If Binzhou Yinhe is 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 RMB5,674.5 million, RMB6,057.6 million and RMB7,572.3 million (US\$1,250.9 million) for 2011, 2012 and 2013, respectively. We have been able to meet our electricity needs by generating electricity using our own thermal power stations and by purchasing from Gaoxin. 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 16.0%, 18.7% and 21.5% of our total cost of sales for 2011, 2012 and 2013, 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 Gaoxin is subject to adjustment through negotiation if the price fluctuation of coal with a heat value of 5,000 kilocalories per kilogram exceeds 20%. As a result, any increase in the base price of coal exceeding 20% could increase the price of electricity we purchase from Gaoxin. The electricity supply agreement between Gaoxin and us also does not have a definite term and can be terminated by a 90-day prior written notice provided by any party. If Gaoxin chooses to terminate this electricity supply agreement, we cannot guarantee you that we may be able to find alternative sources at the same price level offered by Gaoxin 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.***

Our aluminum production facilities and thermal power stations are highly capital-intensive to construct and maintain. Our capital expenditures amounted to approximately RMB9,153.5 million, RMB11,627.0 million and RMB15,360.9 million (US\$2,537.4 million) for 2011, 2012 and 2013, respectively, which were primarily used to increase our production capacity. We are in the process of expanding the production capacity of our aluminum products and thermal power stations. Our future capital requirements may be substantial as we continue to seek to grow our business. We may need to raise additional funds to meet these 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") increased the benchmark one-year lending rate three times in 2011, and subsequently decreased the benchmark one-year lending rate in June and July 2012, resulting in a new

benchmark one-year lending rate of 6.00%. As of December 31, 2013, the benchmark one-year lending rate was 6.00%. Increases in interest rates increase our financing costs. In addition, if we decide to raise additional funds through the incurrence of debt, our interest and debt repayment obligations will increase, and we may be subject to additional covenants, which could limit our ability to access cash flows from operations. We cannot assure you that we will be able to raise adequate financing to fund our future capital requirements on commercially acceptable terms in time, or at all.

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

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

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

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

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

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

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

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

- alterations in demand for our aluminum products;
- our customers' sales outlook, purchasing patterns and changes in inventory level;

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

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

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

Mr. Zhang, our chairman and Controlling Shareholder, currently beneficially owns approximately 84.96% of the issued share capital of our Company. As such, Mr. Zhang has, and will continue to have, substantial influence over our business. We cannot assure you that Mr. Zhang will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the interests of the holders of the Notes.

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

Our success depends in part upon our intellectual property rights and know-how. However, we may not be able to adequately protect such intellectual property rights. In addition, any attempt to enforce our intellectual property rights, even if successful, could result in costly and prolonged litigation, divert our management's attention and adversely affect our financial performance. Failure to adequately protect our intellectual property may materially and adversely affect our results of operations as our competitors would be able to utilize such property without having to incur the costs of developing it, thus potentially reducing our relative profitability. Also, if we fail to effectively protect our brand name from inappropriate use by third parties in ways that adversely affect our brand name, our reputation could suffer damage, which in turn could have a material adverse effect on our business, financial condition and results of operations. Furthermore, we may be subject to claims that our technology infringes upon the intellectual property rights of other parties. Even if without merit, such claims could result in costly and prolonged litigation, divert management's attention, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

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

As of the date of this offering circular, we had not been subject to any material product liability claims. However, we cannot assure you that we will not experience material losses arising from product liability claims in the future. We do not maintain any product liability insurance. If our products fail to meet the required specifications or quality standards, our business could be materially

and adversely affected. We may also face liability claims due to possible defective products. Such claims may be pursued by way of contractual remedy or by way of civil action if the defects in our products result in damages or injuries suffered by third parties. In such event, our reputation and our business, financial condition and results of operations would be materially and adversely affected.

***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.

***The global financial crisis which commenced in 2008 and the recent economic crisis in Europe have had a negative impact on the global economy, including the aluminum industry. If the economic downturn continues, it may 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 the recent economic crisis in Europe caused substantial volatility in the capital markets and a downturn in the global and PRC aluminum industry. As a result, China's growth rates of aluminum consumption slowed down, and the prices of aluminum products experienced 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 this economic downturn continues 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.

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

***Future 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, 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.

As of December 31, 2013, we had an aggregate designed annual capacity of approximately 3.0 million tons of aluminum products at our Zouping, Weiqiao, Binzhou and Huimin manufacturing bases. In addition, we are in the process of increasing the production capacity of our manufacturing bases. In respect of our existing projects and projects under construction, we have obtained the required

approvals and permits and completed the required filings in all material respects, and our operations have been in compliance with relevant laws, regulations and policies in the PRC in all material respects. However, if applicable laws and regulations change adversely or the relevant regulatory authorities change their interpretation or enforcement of relevant policies in the future, we may be required to obtain further approvals or to meet other additional regulatory requirements. In addition, we may not be able to access the credit markets or obtain financing through corporate debt, commercial paper, medium-term notes, convertible bonds or equity issuances under the current industry policies.

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

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

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

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

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

Certain facts and other statistics in this offering circular relating to China, the PRC economy and the global and PRC aluminum industries and related markets have been derived from various official government publications. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or

outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

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

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

We conduct substantially all of our operations in China and derive 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, the “Notice of SAFE on Issues Relating to Foreign Exchange Control on Fund Raisings by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investments” (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or the Circular 75, promulgated by SAFE, which came into force on November 1, 2005, applies to our Company and Mr. Zhang, the Controlling Shareholder of our Group. Mr. Zhang has completed the foreign exchange registration for its overseas investment under Circular 75 in 2010. If the foreign exchange control system prevents us from converting Renminbi into foreign currencies or vice versa, and obtaining sufficient Renminbi or foreign currency to satisfy our currency demands, our ability to transfer Renminbi to fund our business operations in China or to service our Notes may be adversely affected.

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

On March 16, 2007, the National People’s Congress of the PRC passed the EIT Law, which took effect on January 1, 2008. On December 6, 2007, the PRC government also adopted the Implementing Rules of the Enterprise Income Tax Law, or the Implementing Rules, which also took effect on January 1, 2008. Under the EIT Law, a unified EIT rate of 25% and unified tax deduction standards are applied to both domestic-invested enterprises and foreign-invested enterprises, or FIEs. Under the EIT Law, a 10% withholding tax is generally imposed on dividends distributed by FIEs to their foreign investors to the extent the distributed dividends are sourced from the PRC, if such foreign investors are neither PRC-resident enterprises nor has any establishment or place of business in the PRC, or if such foreign investors have 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. Because Hongqiao Hong Kong currently owns all of the shares of Shandong Hongqiao, we currently withhold 5% PRC tax from dividends paid by Shandong Hongqiao. However, there can be no assurance that dividends to Hongqiao Hong Kong will be eligible for the 5% 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, Zong Heng Law Firm, 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 tax 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 turnover 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. 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%. 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.

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

Our business could be adversely affected by the effects of H1N1 flu, H5N1 avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics or outbreaks. In 2006, 2007 and 2008, there have been 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. Any prolonged occurrence or recurrence of H1N1 flu, H5N1 avian flu, SARS 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 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, the Company may elect to have any future Offshore Subsidiary not provide Subsidiary Guarantee if certain conditions are met. Our primary assets are ownership interests in our PRC and Indonesian subsidiaries, which are held through our subsidiaries incorporated outside the PRC and Indonesia. On the date of issue of the Notes, all of such subsidiaries directly or indirectly owning our PRC subsidiaries (but not our Indonesian subsidiaries) will guarantee the Notes. The guarantors do not have material operations. Accordingly,

our ability to pay principal and interest on the Notes and the ability of the guarantors to satisfy their obligations under their guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. In addition, we are permitted to designate certain of our offshore subsidiaries as non-guarantor subsidiaries.

Creditors, including trade creditors of non-guarantor subsidiaries and any holders of preferred shares in such entities, would have a claim on the assets of the non-guarantor subsidiaries that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries that do not guarantee the Notes, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our non-guarantor subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2013, our non-guarantor subsidiaries had indebtedness and capital commitments of RMB22,219.2 million (US\$3,670.4 million) and RMB17,918.6 million (US\$2,959.9 million), respectively, and no contingent liabilities arising from guarantees. The Notes and the indenture permit us, the guarantors and our non-guarantor subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any guarantor would have priority as to our assets or the assets of such guarantor securing the related obligations over claims of holders of the Notes.

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

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

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

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

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total borrowings, including both current and non-current borrowings, as of December 31, 2013, was RMB30,557.9 million (US\$5,047.8 million), of which RMB4,384.7 million (US\$724.3 million) were secured borrowings. We had offshore outstanding secured indebtedness of approximately US\$721.5 million in principal amount as of December 31, 2013. See “Description of Other Material Indebtedness — Offshore Financing.” Since December 31, 2013, we continue to enter into short-term and long-term borrowings during our ordinary course of business to finance our operation, including without limitation, the RBS 2014 Facility in an amount up to US\$580 million and the DBS 2014 Facility in an amount up to US\$400 million. 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 and Indonesia. 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.

***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 ratings provisionally assigned to the Notes may be lowered or withdrawn.***

The Notes have been provisionally assigned a rating of "BB" by Standard and Poor's Ratings Services and "BB" by Fitch Ratings. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a rating of "BB" with a stable outlook by Standard and Poor's Ratings Services and "BB" with a stable outlook by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A rating might not remain for any given period of time and could be lowered or withdrawn entirely by the relevant rating agency. 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 the Notes may adversely affect the market price of the Notes.

***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 revenues, earnings and cash flows and proposals for new investments, strategic alliances and acquisitions, interest rates and fluctuations in price for comparable companies 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.

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

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. Accordingly, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See “Description of the Notes — Book-Entry; Delivery and Form.”

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

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

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

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

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

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

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

Our Shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that a “connected transaction” exceeding the applicable de



minimis value thresholds will require certain procedures requirements to be completed or approvals to be obtained. However, the “Limitation on Transactions with Shareholders and Affiliates” covenant set forth in the “Description of the Notes” does not capture transactions between the 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.

***The Notes are effectively subordinated to the secured obligations of ours and the Subsidiary Guarantors, including the J.P. Morgan 2012 Facility and the J.P. Morgan 2013 Facility to the extent of the value of the assets serving as security therefor.***

The Notes are unsecured and are effectively subordinated to the secured obligations of ours and the Subsidiary Guarantors, to the extent of the value of the assets. In bankruptcy, the holder of any secured obligation of ours or any Subsidiary Guarantor serving as security therefor would be entitled to have the proceeds of such assets applied to the payment of such holder's claim before the remaining proceeds, if any, are applied to the claims of the holders of the Notes. The J.P. Morgan 2012 Facility and the J.P. Morgan 2013 Facility are secured by collateral being, (i) the equity of the initial subsidiary Guarantors, (ii) an assignment by Shandong Hongqiao of an off-take agreement between Shandong Hongqiao and J.P. Morgan China Commodities Corporation ("JPMCNC") and (iii) a pledge over all of Shandong Hongqiao's presently owned and future acquired account receivables under the off-take agreement described in (ii) above. Shandong Hongqiao entered into an off-take agreement with JPMCNC under which Shandong Hongqiao agreed to sell to JPMCNC certain aluminum ingots. All sale proceeds under this contract are required to be deposited into certain onshore bank accounts with J.P. Morgan China that are subject to escrow arrangements. If an event of default under the J.P. Morgan 2012 Facility or the J.P. Morgan 2013 Facility agreement occurs, J.P. Morgan as facility agent will be entitled to instruct the escrow bank to transfer all proceeds in these onshore bank accounts to offshore accounts, as directed by J.P. Morgan (subject to necessary SAFE approval), and J.P. Morgan may enforce against the collateral securing the term loans, without consulting with the Trustee. See "Description of Other Material Indebtedness — Offshore Financing". We expect that in the future we will continue to incur secured indebtedness.

## **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\$392 million. We intend to apply the net proceeds from this offering primarily 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

The People's Bank of China (the "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. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of or the registration with the State Administration for Foreign Exchange or its local branches and other relevant authorities. 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. From July 21, 2005 to November 19, 2010, the value of the Renminbi has appreciated by approximately 24.7% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Center, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies traded against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot and the over-the-counter exchange rate for that business day. 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. On June 19, 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and the balance of payments situation in China, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but the PBOC will place more emphasis to reflecting the market supply and demand with reference to a basket of currencies.

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

Period	Renminbi per U.S. Dollar Noon Buying Rate <sup>(1)</sup>			
	End	Average <sup>(2)</sup>	High	Low
	(RMB per US\$1.00)			
2009 .....	6.8259	6.8295	6.8470	6.8176
2010 .....	6.6000	6.7603	6.8330	6.6000
2011 .....	6.2939	6.4475	6.6364	6.2939
2012 .....	6.2301	6.3088	6.3879	6.2221
2013 .....	6.0537	6.1412	6.2438	6.0537
December .....	6.0537	6.0738	6.0927	6.0537
2014				
January .....	6.0590	6.0509	6.0600	6.0402
February .....	6.1448	6.0816	6.1448	6.0591
March .....	6.2164	6.0816	6.2273	6.1183
April .....	6.2591	6.2246	6.2591	6.1966
May .....	6.2471	6.2379	6.2591	6.2270
June (through June 6) .....	6.2498	6.2509	6.2548	6.2471

(1) Exchange rates between Renminbi and U.S. dollar for all periods before December 31, 2009 represent the noon buying rates for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Exchange rates between Renminbi and U.S. dollar from and after January 1, 2009 represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

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

## CAPITALIZATION AND INDEBTEDNESS

The table below sets forth our consolidated current borrowings and capitalization as of December 31, 2013, on an adjusted basis to give effect to the issuance of the Notes and receipt of the net proceeds from the offering of the Notes after deducting the underwriting discounts and commissions and other estimated expenses relating to such offering payable by us, but without giving effect to any refinancing of our indebtedness.

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

	As of December 31, 2013			
	Actual		As adjusted for the Notes	
	(RMB)	(US\$)	(RMB)	(US\$)
	(in thousands) (unaudited)			
Total bank borrowings — due within one year .....	9,565,774	1,580,153	9,565,774	1,580,153
Total bank borrowings — due after one year .....	9,655,059	1,594,902	9,655,059	1,594,902
Medium-term debentures .....	6,189,548	1,022,441	6,189,548	1,022,441
Notes to be issued .....	—	—	2,421,480	400,000
Convertible bonds — liability component .....	750,001	123,891	750,001	123,891
Convertible bonds — derivative component .....	67,554	11,159	67,554	11,159
Short-term debentures .....	4,000,000	660,753	4,000,000	660,753
Other borrowings — due within one year.....	95,000	15,693	95,000	15,693
Other borrowings — due after one year .....	235,000	38,819	235,000	38,819
<b>Total debt</b> .....	<u>30,557,936</u>	<u>5,047,811</u>	<u>32,979,416</u>	<u>5,447,811</u>
<b>Equity</b>				
Capital and reserves				
Share capital .....	386,206	63,797	386,206	63,797
Reserves .....	<u>26,288,167</u>	<u>4,342,496</u>	<u>26,288,167</u>	<u>4,342,496</u>
Equity attributable to owners of the Company .....	<u>26,674,373</u>	<u>4,406,293</u>	<u>26,674,373</u>	<u>4,406,293</u>
Minority interests .....	208,172	34,388	208,172	34,388
Total equity .....	<u>26,882,545</u>	<u>4,440,681</u>	<u>26,882,545</u>	<u>4,440,681</u>
<b>Total capitalization<sup>(1)</sup></b> .....	<u><u>57,440,481</u></u>	<u><u>9,488,492</u></u>	<u><u>59,861,961</u></u>	<u><u>9,888,492</u></u>

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

As of December 31, 2013, our total cash and cash equivalents (excluding restricted cash) amounted to RMB6,362.1 million (US\$1,050.9 million). Our cash and cash equivalents were mainly held in RMB and US dollars, with approximately 90.3% held in RMB and approximately 9.6% held in US dollars.

As of December 31, 2013,

- we had approximately RMB30,557.9 million (US\$5,047.8 million) of consolidated indebtedness outstanding, of which approximately RMB4,384.7 million (US\$724.3 million) was secured;
- we had offshore outstanding secured indebtedness in principal amounts totaling approximately US\$692.0 million and HK\$195.1 million. See “Description of Other Material Indebtedness – Offshore Financing;” and
- our PRC subsidiaries had indebtedness of approximately RMB22,219.2 million (US\$3,670.4 million). In addition, these PRC subsidiaries had capital commitments of approximately RMB11,963.7 million (US\$1,976.3 million).

Since December 31, 2013, 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 RBS 2014 Facility in an amount up to US\$580 million, the DBS 2014 Facility in an amount up to US\$400 million and an aggregate amount of RMB2.0 billion notes. See “Description of Other Material Indebtedness” for further information.

Except as otherwise disclosed in this offering circular, there has been no material adverse change in our indebtedness or capitalization since December 31, 2013.



## SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated financial information of our Group. We have derived the following selected consolidated financial information from our audited consolidated financial statements for the years ended and as of December 31, 2011, 2012 and 2013 all set forth elsewhere in this offering circular. These have been prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions. You should read the summary financial information below in conjunction with our consolidated financial statements. Historical results are not necessarily indicative of results that may be achieved in the future.

### Consolidated Statements of Comprehensive Income

	Year Ended December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Revenue.....	23,626,031	24,804,742	29,404,462	4,857,271
Cost of sales.....	(15,449,645)	(16,801,294)	(21,261,660)	(3,512,176)
Gross profit.....	8,176,386	8,003,448	8,142,802	1,345,095
Other income and gain and loss.....	311,960	422,439	941,621	155,544
Distribution and selling expenses.....	(44,054)	(58,667)	(60,128)	(9,932)
Administrative expenses.....	(167,033)	(306,068)	(440,171)	(72,711)
Finance costs.....	(300,819)	(642,731)	(1,359,200)	(224,524)
Other expenses.....	(22,569)	(20,121)	(9,125)	(1,507)
Changes in fair value of compound derivative.....	—	2,253	163,596	27,024
Profit before taxation.....	7,953,871	7,400,553	7,379,395	1,218,989
Income tax expense.....	(2,078,461)	(1,947,961)	(1,792,946)	(296,173)
Other comprehensive income.....	—	—	(22,689)	(3,748)
Profit and other comprehensive income for the year.....	<u>5,875,410</u>	<u>5,452,592</u>	<u>5,563,760</u>	<u>919,068</u>
Profit and other comprehensive income for the year attributable to				
Owners of the Company.....	5,875,410	5,452,592	5,579,062	921,595
Non-controlling interests.....	—	—	(15,302)	(2,527)
	<u>5,875,410</u>	<u>5,452,592</u>	<u>5,563,760</u>	<u>919,068</u>
Earnings per share				
Basic (RMB).....	<u>1.03</u>	<u>0.93</u>	<u>0.95</u>	<u>0.16</u>
Diluted (RMB).....	<u>N/A</u>	<u>0.92</u>	<u>0.91</u>	<u>0.15</u>
<b>Other financial data (unaudited):</b>				
EBITDA <sup>(1)</sup> .....	9,091,881	9,376,696	10,752,231	1,776,142
EBITDA margin <sup>(2)</sup> .....	38.5%	37.8%	36.6%	36.6%
Total debt <sup>(3)</sup> .....	7,192,203	16,550,093	30,557,936	5,047,811
Net debt <sup>(4)</sup> .....	(307,060)	6,503,062	22,525,290	3,720,913
Total debt/EBITDA.....	0.8x	1.8x	2.8x	2.8x
Net debt/EBITDA.....	(0.0x)	0.7x	2.1x	2.1x
EBITDA/Finance cost.....	30.2x	14.6x	7.9x	7.9x

## Statements of Financial Position

	At December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
(in thousands)				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment .....	16,424,458	26,711,299	39,996,661	6,606,978
Prepaid lease payments — non-current portion ..	937,128	1,044,404	1,138,979	188,146
Deferred tax assets .....	43,616	57,495	134,164	22,162
Deposits paid for acquisition of property, plant and equipment.....	1,400,011	1,705,469	2,040,102	337,001
	<u>18,805,213</u>	<u>29,518,667</u>	<u>43,309,906</u>	<u>7,154,287</u>
<b>CURRENT ASSETS</b>				
Prepaid lease payments — current portion.....	19,726	22,394	25,160	4,156
Inventories .....	1,908,646	3,110,727	10,136,223	1,674,385
Trade receivables .....	1,438	43,672	160,935	26,585
Bills receivable .....	1,312,960	1,319,684	2,048,498	338,388
Prepayments and other receivables .....	121,802	314,542	1,465,168	242,028
Restricted bank deposits .....	14,468	872,088	1,670,576	275,959
Bank balances and cash.....	7,484,795	9,174,943	6,362,070	1,050,939
	<u>10,863,835</u>	<u>14,858,050</u>	<u>21,868,630</u>	<u>3,612,440</u>
<b>CURRENT LIABILITIES</b>				
Trade payables .....	1,216,259	1,097,744	1,995,649	329,658
Bills payable .....	—	200,000	—	—
Other payables .....	2,644,583	3,871,241	5,344,024	882,770
Income tax payable .....	137,879	244,895	353,104	58,329
Bank borrowings — due within one year.....	3,210,610	6,659,235	9,565,774	1,580,153
Other borrowings — due within one year.....	—	—	95,000	15,692
Short-term debentures.....	—	—	4,000,000	660,753
Held-for-trading financial liabilities .....	—	1,084	5,278	872
	<u>7,209,331</u>	<u>12,074,199</u>	<u>21,358,829</u>	<u>3,528,227</u>
<b>NET CURRENT ASSETS</b> .....	<u>3,654,504</u>	<u>2,783,851</u>	<u>509,801</u>	<u>84,213</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> .....				
	<u>22,459,717</u>	<u>32,302,518</u>	<u>43,819,707</u>	<u>7,238,500</u>
<b>CAPITAL AND RESERVES</b>				
Share capital .....	386,206	386,206	386,206	63,797
Share premium and reserves .....	18,010,828	21,927,049	26,288,167	4,342,496
Equity attributable to owners of the Company...	18,397,034	22,313,255	26,674,373	4,406,293
Non-controlling interests .....	—	24,642	208,172	34,387
<b>TOTAL EQUITY</b> .....	<u>18,397,034</u>	<u>22,337,897</u>	<u>26,882,545</u>	<u>4,440,680</u>

	At December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
<b>NON-CURRENT LIABILITIES</b>				
Bank borrowings — due after one year .....	3,981,593	7,443,657	9,655,059	1,594,902
Other borrowings — due after one year .....	—	—	235,000	38,819
Medium-term debentures .....	—	1,486,640	6,189,548	1,022,441
Deferred tax liabilities .....	81,090	73,763	40,000	6,608
Convertible bonds — liability component.....	—	729,411	750,001	123,891
Convertible bonds — derivative component.....	—	231,150	67,554	11,159
	<u>4,062,683</u>	<u>9,964,621</u>	<u>16,937,162</u>	<u>2,797,820</u>
	<u>22,459,717</u>	<u>32,302,518</u>	<u>43,819,707</u>	<u>7,238,500</u>

### Consolidated Statement of Cash Flows

	At December 31,			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Net cash generated from operating activities .....	5,630,079	6,220,771	252,276	41,673
Net cash used in investing activities.....	(8,898,355)	(11,644,177)	(14,765,095)	(2,439,020)
Net cash generated from financing activities .....	8,083,502	7,113,554	11,720,675	1,936,118
Net increase in cash and cash equivalents .....	4,815,226	1,690,148	(2,792,144)	(461,229)

- (1) EBITDA refers to our profit from continuing operations before interest income/expense, amortization of prepaid lease payments, income tax expense and depreciation. 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. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

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

	<b>For the year ended December 31,</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>
	<b>(RMB)</b>	<b>(RMB)</b>	<b>(RMB)</b>	<b>(US\$)</b>
	<b>(in thousands)</b>			
Profit and other comprehensive income for the year .....	5,875,410	5,452,592	5,563,760	919,068
Interest income .....	(11,156)	(28,555)	(72,181)	(11,923)
Other comprehensive income.....	—	—	(22,689)	(3,748)
Finance costs .....	(300,819)	(642,731)	(1,359,200)	(224,524)
Taxation .....	(2,078,461)	(1,947,961)	(1,792,946)	(296,174)
Depreciation and amortization .....	(848,347)	(1,361,967)	(2,085,817)	(344,552)
<b>EBITDA</b> .....	<b>9,091,881</b>	<b>9,376,696</b>	<b>10,752,231</b>	<b>1,776,142</b>

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

## 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 2013 was approximately 50.9 million tons according to Antaike. Primary aluminum is made from alumina (which is typically made from bauxite). Primary aluminum is processed into various fabricated products, such as rolled sheet, coil and plate, extruded bars and sections, wire-rod, castings and forgings.

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

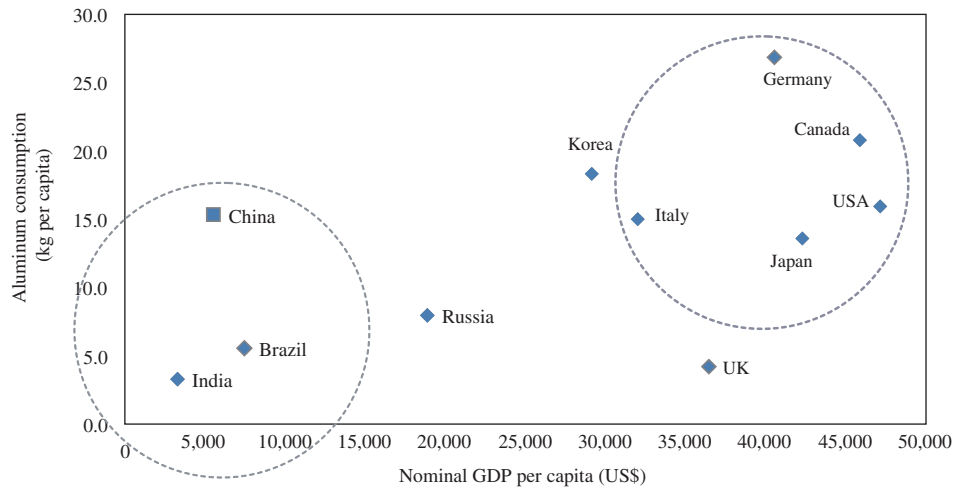
Aluminum is an abundant element in nature, and its principal commercial ore is bauxite. Bauxite is largely found in tropical areas of the world, with the main global reserves located in Guinea, Australia, Brazil, Vietnam and Jamaica. From bauxite, aluminum is produced in two stages. Bauxite is processed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

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 leveraged to the GDP growth and industrial production. The chart below summarizes the positive correlation between per capita consumption of aluminum and GDP per capita in countries with different degrees of economic

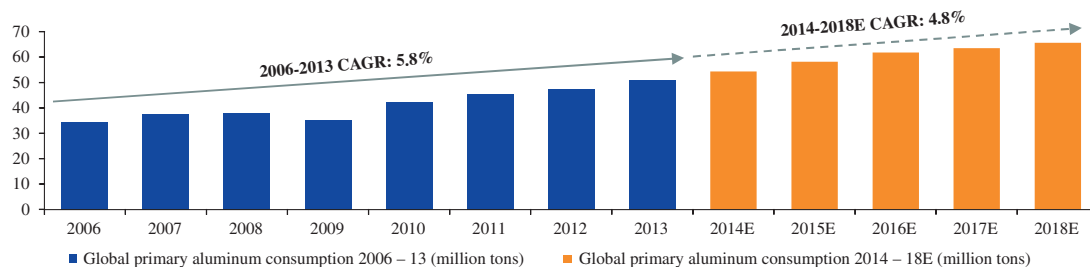
development. As illustrated in the chart below, developing countries (bottom left-hand quadrant) generally, on a per capita basis, consume less aluminum than developed countries (top right-hand quadrant) on a per capita basis in 2013. As the GDP per capita of developing countries in the lower left quadrant, such as China, India and Brazil, increases, the consumption of aluminum on a per capita basis is expected to increase. Aluminum demands in these developing countries have significant growth potential.



Source: Antaika

From 2006 to 2013, worldwide consumption of primary aluminum had grown at a CAGR of 5.8%, mainly driven by strong demand from emerging markets, especially from China, India and Brazil. During the global economic downturn, global consumption of primary aluminum fell in 2009 by 6.6%. However, the global demand for primary aluminum recovered with a growth of 19.3% in 2010. The demand for primary aluminum increased by 7.9% in 2011 in China, primarily due to re-stocking and governmental incentive measures to promote the consumption of durable goods and vehicles. In 2012, due to the effect of adverse global macroeconomic conditions, growth of global consumption of primary aluminum slowed to 5.0%. In 2013, growth recovered to 6.5% as the European and U.S. economies gradually recovered.

Antaika forecasts that primary aluminum consumption between 2014 and 2018 will grow at a CAGR of 4.8% globally (as the following chart shows).

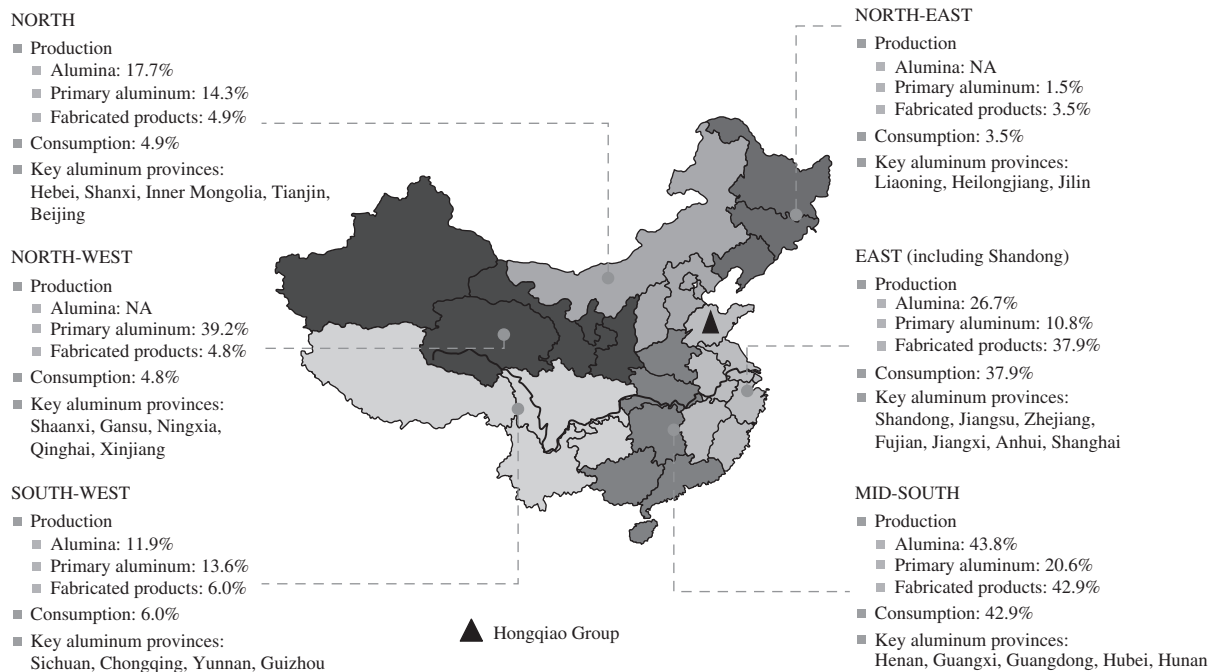


Source: Antaika

## PRC Aluminum Industry

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

The map below shows the geographical distribution of aluminum production and consumption in China for 2013 (as percentages of total production, consumption, and downstream fabricated products produced in China):



Source: Antaike

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

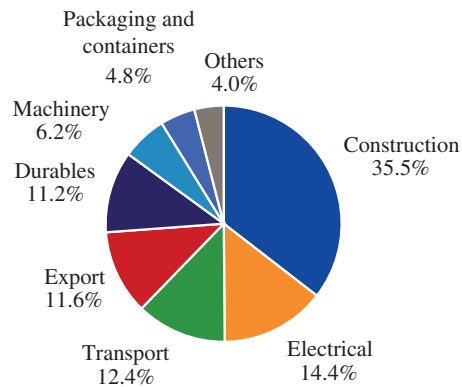
- East region — Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi, Fujian and Shanghai
- North-east region — Heilongjiang, Jilin and Liaoning
- Mid-south region — Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan
- South-west region — Sichuan, Yunnan, Guizhou, Chongqing and Tibet
- North-west region — Shaanxi,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

As of December 31, 2013, Chinese aluminum manufacturers are distributed across 21 provinces in China. East China region, including Shandong Province, where our production facilities are located, is the second largest aluminum consuming region in China, representing 37.9% of the country's aluminum consumption for 2013. 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 14.7%, from RMB10,965.5 billion in 2001 to RMB56,884.5 billion in 2013, while its industrial production increased from approximately RMB4,358.1 billion in 2001 to approximately RMB21,068.9 billion in 2013, representing a CAGR of 14.0%. Although China’s rate of economic growth has slowed compared to previous years, Antaika believes it is probable that China’s gross domestic product will still grow at an annual rate between 7-9% between 2014 and 2018. During the same period, Antaika 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 2013, China consumed approximately 24.8 million tons of primary aluminum, representing 49% of world total consumption. This ratio is expected to reach 55.6% by 2018, according to Antaika. The chart below shows the breakdown of domestic aluminum consumption by end-use in China in 2013.



Source: Antaika

China’s aluminum consumption continued to grow across sectors in 2013, which is summarized in the table below:

Packaging	18.0%
Electrical	12.0%
Machinery	15.0%
Transport	14.5%
Durables	8.0%
Construction	13.5%
Others	17.0%
Export	7.6%



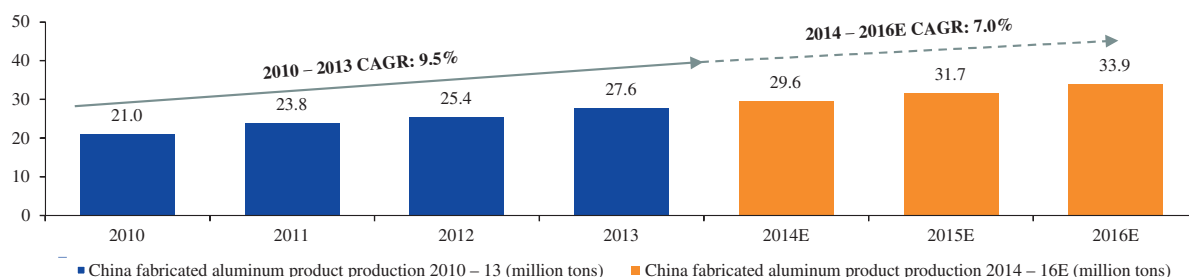
Despite the strong growth in the past decade, China’s aluminum consumption on a per capita basis is still below that in the developed economies. The table below sets forth an overview of the aluminum consumption in China and the United States, Japan, Germany and Canada in 2013.

### Aluminum consumption data in 2013

Country	Total Aluminum Consumption (thousand tons)	Per Capita Aluminum Consumption (kg)	Per Capita GDP (US\$)
United States .....	4,960	15.8	52,491
Japan .....	1,960	15.5	37,302
Germany .....	2,060	25.5	43,139
Canada .....	520	14.9	51,155
<b>China .....</b>	<b>24,800</b>	<b>18.2</b>	<b>6,838</b>

Source: EIU and Antaika

Primary aluminum can be processed into various downstream fabricated products including flat-rolled products (plates, sheets, strips and foils), extrusion products (tubes, bars and profiles), wire-rod, castings and forgings. As the chart below shows, total production of fabricated aluminum products in China increased rapidly at a CAGR of 9.5% from 2010 to 2013, and is expected to grow at a CAGR of 7.0% from 2014 to 2016, which will support the future growth of demand for aluminum products in China.



Source: Antaika

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

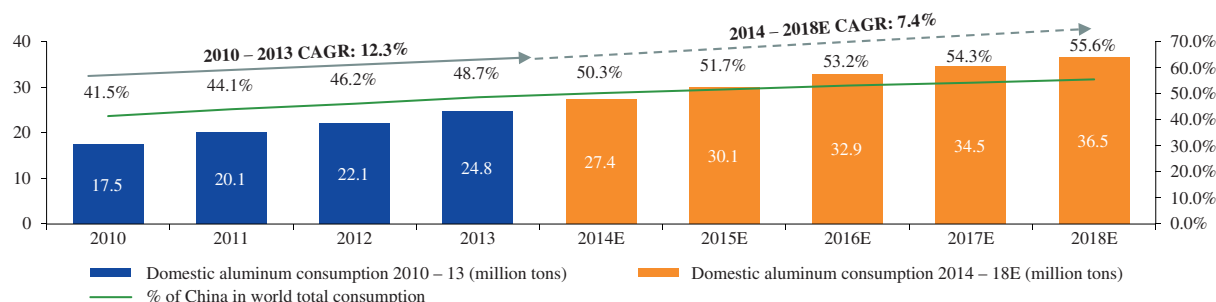
## Construction

Aluminum products are widely used in windows, doors, cladding and facades in the construction sector. According to the National Bureau of Statistics of China, the total investment in fixed assets in China grew from approximately RMB11,000 billion in 2006 to approximately RMB44,707.4 billion in 2013, representing a CAGR of 22.2%. 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 19.3% from 2006 to 2013, 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 70 per thousand people as at the end of 2012 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 93 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 125 kg by 2015. Taken together with the growing vehicle production, it is expected to further drive growth in aluminum demand in China.

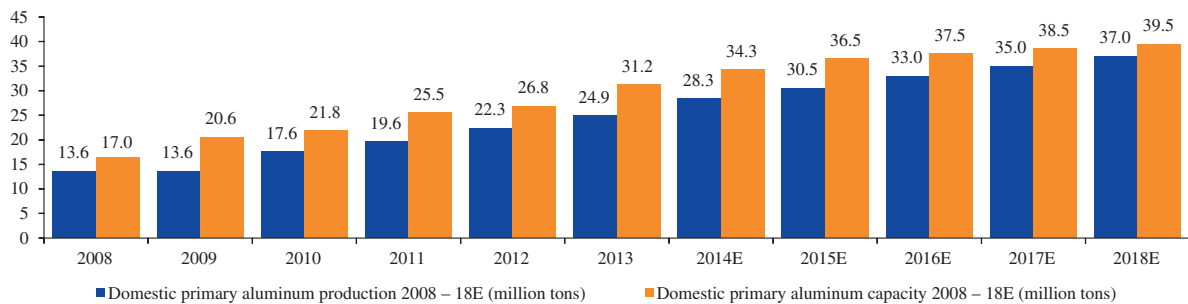
Antaike estimates that China's primary aluminum consumption will grow at a CAGR of 7.4% from 27.4 million tons in 2014 to 36.5 million tons in 2018, as shown in the chart below.



Source: Antaike

### *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 12.9% from 13.6 million tons in 2008 to 24.9 million tons in 2013, compared to the CAGR of 4.8% globally during the same period, while China's share of global aluminum output rose from 34.0% to 49.2% during the same period, according to Antaike. The rapid growth of aluminum production is mainly driven by domestic consumption, government support and the application of advanced technology. As the chart below shows, Antaike expects that the primary aluminum output will increase at a CAGR of 6.9% from 2014 to 2018, exceeding the growth of the production capacity in the same period.



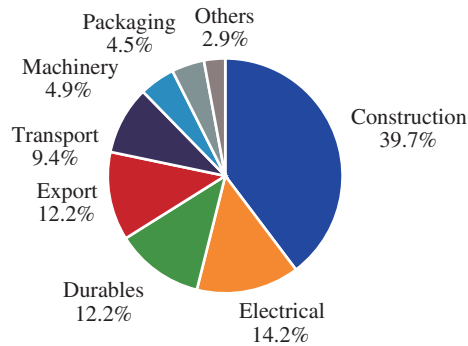
Source: Antaike

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 36,000 tons in 2001 to approximately 333,000 tons in 2013. Meanwhile, capacity associated with over 300 kA smelters accounted for approximately 66.2% of total domestic aluminum capacity as of the end of 2013.

### *Overview of domestic downstream fabrication sector*

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

In 2013, China consumed approximately 25.0 million tons of aluminum fabricated products, according to Antaike. The chart below shows the breakdown of domestic aluminum fabricated product consumption by end-use in 2013. The main users of aluminum fabricated products are from the construction, electrical, durables and packaging.




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Source: Antaike

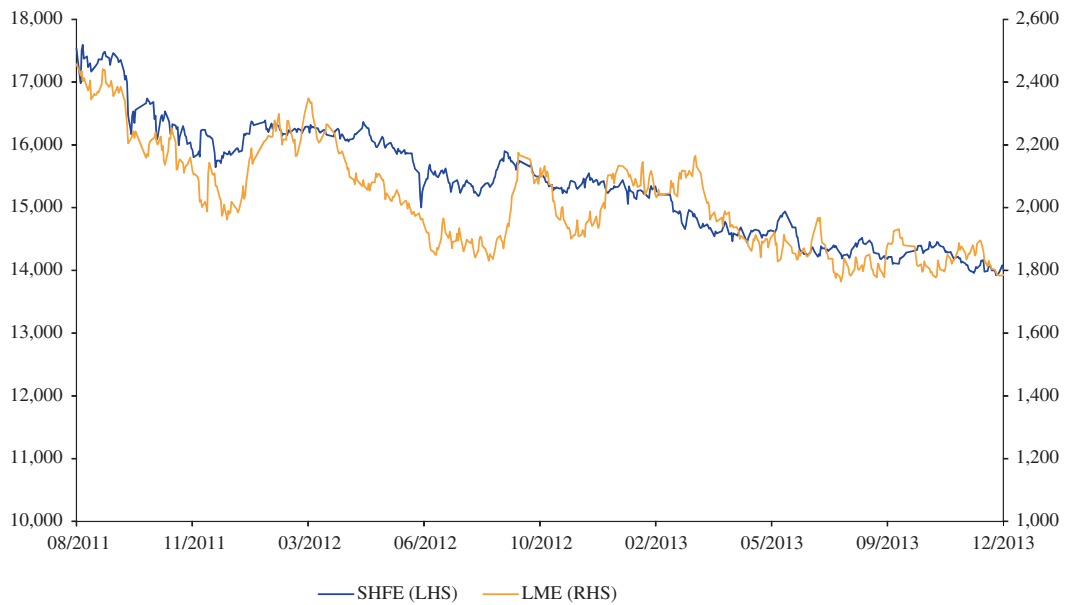
Although transportation and packaging only account for a small share (accounting for 9.4% and 4.5% of current fabricated aluminum product consumption in the PRC, respectively) in 2013, we believe they represent two of the key drivers of future demand growth for aluminum fabricated products, given the significant growth potentials in tin cans, food packaging, automotives and urban subway in China. Antaike estimates that China's aluminum fabricated product consumption will grow steadily at a CAGR of 7.5% from 2014 to 2016.

## Aluminum Price

### *Historical price overview*

Aluminum price has experienced significant fluctuations in the past. The following chart shows aluminum 3-month London Metal Exchange, or the LME, price and 3-month Shanghai Futures Exchange, or the SHFE, price from August 2011 to December 2013. In 2013, as the growth of the Chinese and European economies slowed, and as the U.S. economy growth gradually recovered, the growth of global and Chinese supply and consumption of aluminum slowed, and PRC and international aluminum prices slowly decreased. In 2013, the LME spot price and 3-month forward price averaged

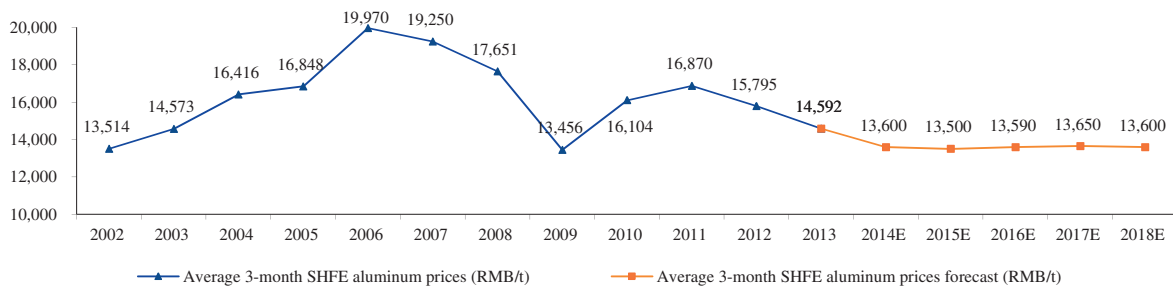
US\$1,846 per ton and US\$1,888 per ton, representing a decrease of 8.6% and 8.0% respectively from 2012. During the same period, SHFE spot and 3-month forward aluminum price averaged RMB14,561 per ton and RMB14,592 per ton, representing a decrease of 7.3% and 7.6% from 2012.



Source: Wind Info.

**Price outlook**

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



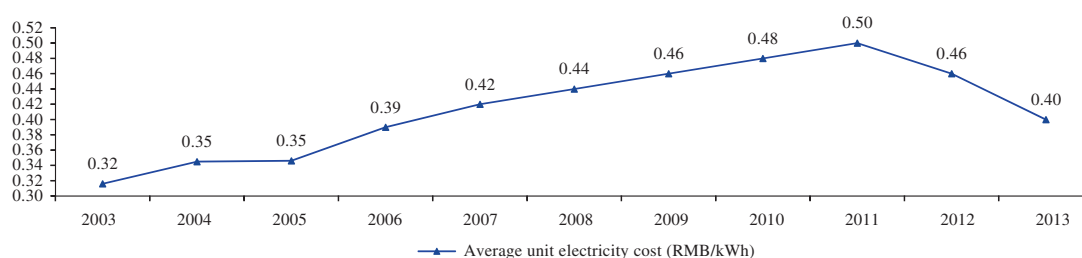
Source: Antaike

## Cost Overview

Competition in 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*

The 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 and 2013, due to decreases in coal prices and increased capacity of aluminum manufacturers to generate electricity in-house. In 2013, the average unit electricity cost was RMB0.40/kWh, representing a decrease of 13.0% from 2012.



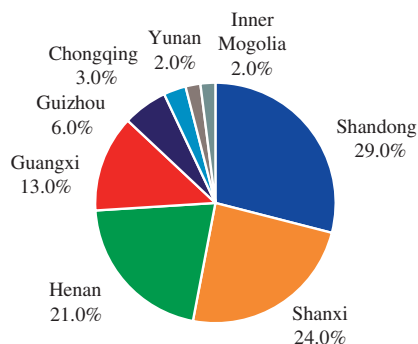
Source: Antaike

With the rapid growth of aluminum smelting capacity in China, electricity supply to this sector has been tight. The electricity used in aluminum production accounted for 6.5% of China's total electricity output in 2013, as compared to that of 3.2% in 2000. Therefore, according to Antaike, the aluminum manufacturers with capacity to generate electricity in-house can enjoy secure stable supply and lower cost of electricity compared to those purchasing electricity externally. In 2013, a total of 40 aluminum manufacturers in China operated captive power plants. The aluminum production capacity of these manufacturers presents approximately 58.7% of total aluminum production capacity in China. The electricity price is largely linked with the price of coal. According to Antaike, the average price of mix-quality coal quoted by Qinhuangdao Shanxi quality index was RMB823 per ton, RMB693 per ton and RMB582 per ton for 2011, 2012 and 2013, respectively.

### *Alumina cost*

Alumina is another major cost to aluminum production. According to Antaike, China had total annual alumina production capacity of 60.0 million tons by the end of 2013 while the actual alumina domestic production in 2013 amounted to 47.0 million tons. The major alumina manufacturers are located in the Shandong, Henan, Shanxi and Guangxi provinces, among which Shandong, Shanxi and Henan are

China's largest alumina producing provinces, representing 29%, 24% and 21% of China's total capacity in 2013, respectively. The geographical distribution of the alumina production capacity is shown in the chart below.



Source: Antaika

According to Antaika, the average prices of alumina produced domestically in China were RMB2,783 per ton, RMB2,612 per ton and RMB 2,498 per ton for 2011, 2012 and 2013, respectively, and the average import price of alumina in China was US\$414 per ton, US\$362 per ton and US\$327 per ton during the same years.

### Competitive Landscape

The following chart sets forth the top ten aluminum manufacturers worldwide in terms of output as of December 31, 2013 based on a study according to metals, mining and fertilizer company CRU Group, according to which, we were the fifth largest aluminum manufacturer.

#### Top ten aluminum manufacturers worldwide

Rank	Company	Output (thousands of metric tons)
1.	United Co. Rusal .....	3,857
2.	Aluminum Corp. of China .....	3,530
3.	Alcoa Inc. ....	3,439
4.	Rio Tinto Group* .....	3,421
5.	China Hongqiao Group Ltd. ....	2,511
6.	China Power Investment Co. ....	2,129
7.	Shandong Xinfu Aluminum and Electricity Group .....	2,123
8.	Emirates Global Aluminum .....	1,822
9.	Norsk Hydro ASA** .....	1,779
10.	BHP Billiton Ltd. ....	1,223

\* Includes production at Pacific Aluminum assets.

\*\* Includes Neuss (100% ownership), Belem (51%), Ziar nad Hronom (55.3%).

Source: CRU Group

As of December 31, 2013, there were a total of 91 aluminum manufacturers in China, according to Antaike. They are located in 21 provinces, with Shandong, Henan and Xinjiang as the three largest producing provinces, accounting for 18.7%, 13.3% and 12.9% of domestic capacity as of December 31, 2013, respectively. The following chart sets forth the top ten aluminum manufacturers in China in terms of aggregate designed annual aluminum production capacity as of December 31, 2013 based on a report issued by Antaike, according to which we were the third largest aluminum manufacturer.

#### Top ten aluminum manufacturers in China

Rank	Company	Designed annual production capacity as of December 31, 2013 (thousand tons per annum)	Nature of Ownership
1	Group 1 .....	4,790	State-owned
2	Group 2 .....	2,960	State-owned
3	<b>China Hongqiao Group Limited (our Group) .....</b>	<b>2,956</b>	<b>Private</b>
4	Group 3 .....	2,870	Private
5	Group 4 .....	1,300	Private
6	Group 5 .....	1,000	Local State-owned
7	Group 6 .....	900	Local State-owned
8	Group 7 .....	840	Private
9	Group 8 .....	836	Local State-owned
10	Group 9 .....	740	Private
<b>Total (% of China)</b>		<b>19,192 (61.5%)</b>	

Source: Antaike

As of December 31, 2013, these ten manufacturers had aggregate designed annual production capacity of approximately 19.2 million tons and accounted for an aggregate of approximately 61.5% of China's domestic capacity. The table below shows the breakdown of aluminum manufacturers by production capacity as of December 31, 2013.

#### Breakdown of aluminum manufacturers by designed capacity (as of December 31, 2013)

Designed Annual Production Capacity (thousand tons per annum)	Number of Companies	% of Total Capacity in China
200 or above .....	54	87.7
500 or above .....	17	50.4

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.

Our existing production lines are equipped with “pre-baked” smelters with working current intensity of 240 kA and 320 kA and as such are unaffected by the aforementioned policy to phase out smaller production capacity. See “Business — Our Production Facilities.” As such, we believe that the aforementioned policies will not have an adverse impact on the operations of our Group. Furthermore, we believe that these policies will help to limit the addition of new capacity and improve the current over-capacity situation. In the long run, we believe the aforementioned policies will promote healthy and sustainable development of the domestic aluminum industry and thus will be beneficial for us.

The PRC governmental authorities have promulgated a series of policies on the aluminum industry recently, including the Opinions on Curbing Excess Capacity in Some Industries and Redundant Construction for the Healthy Industrial Development (關於抑制部分行業產能過剩和重複建設引導產業健康發展的若干意見) dated as of September 26, 2009 issued by the NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land Resources, the Ministry of Environmental Protection, the People’s Bank of China, the General Administration for Quality Supervision and Inspection, China Banking Regulatory Commission and CSRC, and 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, CSRC 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.

### ***Competition in the Aluminum Fabrication Products Segments***

Precise aluminum products are advanced aluminum fabrication products, mainly including aluminum cans; high-grade aluminum foil and other high-grade aluminum flat-rolled products, and seamless pipes and other aluminum extrusion products. According to Antaike, there were approximately 249 aluminum sheets and cords manufacturers and 145 aluminum foils manufacturers in China as of December 31, 2013, with total production capacities of 12,500,000 and 3,500,000 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, 2013	Nature
	(thousand tons per annum)	
Group 1 .....	1,100	State-owned
Group 2 .....	600	Private
Group 3 .....	400	Private
Group 4 .....	400	Private
Group 5 .....	400	Private
<b>Total (% of China)</b> .....	<b>2,900 (23.2%)</b>	

Source: Antaike

### Top five aluminum foil manufacturers in China

Company	Designed capacity as of December 31, 2013	Nature
	(thousand tons per annum)	
Group 1 .....	200	Private
Group 2 .....	150	State-owned
Group 3 .....	100	Private
Group 4 .....	100	State-owned
Group 5 .....	100	Private
<b>Total (% of China)</b> .....	<b>650 (18.6%)</b>	

Source: Antaike

For aluminum extrusion products, as of December 31, 2013, there were approximately 916 manufacturers in China with a total production capacity of 21,200,000 tons per annum, according to Antaike. The table below lists out the top five aluminum extrusion product companies in China.

### Top five aluminum extrusion product manufacturers in China

Company	Designed capacity as of December 31, 2013	Nature
	(thousand tons per annum)	
Group 1 .....	800	Private
Group 2 .....	400	Private
Group 3 .....	300	Private
Group 4 .....	300	Private
Group 5 .....	300	Private
<b>Total (% of China)</b> .....	<b>2,100 (9.9%)</b>	

Source: Antaike

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, 2013, it had a designed primary aluminum production capacity of approximately 5.7 million tons, which made it the largest aluminum production base in China, accounting for approximately 18.1% of total domestic capacity. In addition, Shandong Province is China’s largest alumina supply base, with an annual capacity of approximately 17.6 million tons in 2013, accounting for 29% of domestic alumina capacity.

Shandong Province is also China’s largest manufacturing base of downstream aluminum fabricated products, and manufactured approximately 8.8 million tons, or 22.2% of China’s total production for the year ended December 31, 2013.

As of December 31, 2013, there were nine aluminum manufacturers in Shandong Province. The five largest manufacturers accounted for approximately 94.3% of total designed annual production capacity in Shandong Province. The table below sets forth the top five aluminum manufacturers in Shandong Province by designed annual production capacity.

### Top five aluminum manufacturers in Shandong Province

Company	Designed annual production capacity as of December 31, 2013
	(thousand tons)
<b>China Hongqiao Group Limited (our Group)</b> .....	<b>2,956</b>
Shandong Group 1 <sup>(1)</sup> .....	1,200
Shandong Group 2 .....	836
Shandong Group 3 .....	200
Shandong Group 4 .....	141
<b>Total (as a % of total Shandong Province)</b> .....	<b>5,333 (94.3%)</b>

Source: Antaike

(1) Shandong Group 1 also has a production capacity of 1,670,000 tons per annum outside Shandong Province. Its total capacity is 2,870,000 tons per annum and is referred to as Group 4 in the table headed “Top ten aluminum manufacturers in China” under “Industry Overview — Competition Landscape.”

Our primary production facilities are strategically located in Zouping County, one of the main aluminum production bases in Shandong Province. There are two aluminum manufacturers in Zouping County, Zouping Aluminum Co., Ltd. and us, with a total designed annual production capacity of 3,097,000 tons per annum as of December 31, 2013, according to Antaike. We represented approximately 52.3% and 95.4% of total designed annual production capacity in Shandong Province and Zouping County, respectively, as of December 31, 2013 according to Antaike.

### *Overview of molten aluminum alloy*

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

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

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

#### *Cost saving*

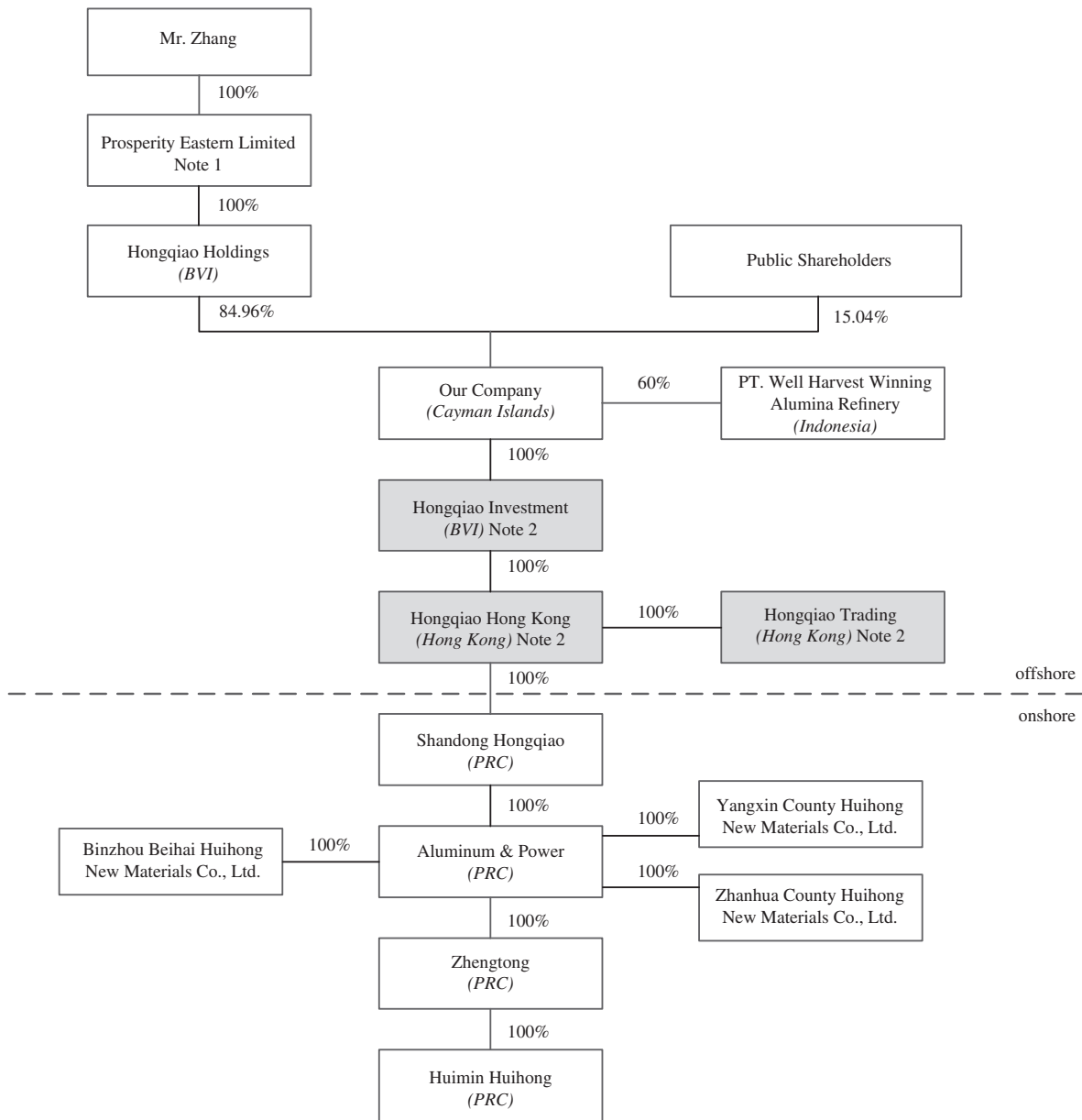
Molten aluminum alloy saves molding costs, and associated energy, labor, storage and other relevant costs for producers. Customers also benefit from saving the energy cost of melting aluminum alloy ingots for further processing, as well as labor and storage costs. Antaike estimates the overall cost benefits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

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

Antaike expects the annual production capacity of downstream customers in the Zouping region to grow from 3.7 million tons as of 2013 to 5.5 million tons as of 2018, and annual demand for primary aluminum in the Zouping region to grow from 2.2 million tons in 2014 to 3.5 million tons in 2018. Antaike expects these growth and greater acceptance of molten aluminum to cause demand for molten aluminum to further increase. Antaike expects annual demand for molten aluminum to grow from 1.9 million tons in 2014 to 3.2 million tons in 2018, representing a CAGR of 11.2%. Furthermore, Antaike expects that over 90% of the demand for aluminum in 2018 in the Zouping region will be met by molten aluminum. According to Antaike, the Group's molten aluminum production capacity accounted for 95.4% of the total molten aluminum production capacity in Zouping as of December 31, 2013.

## CORPORATE STRUCTURE

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



Note 1. Prosperity Eastern Limited holds its shares in Hongqiao Holdings in trust for Mr. Zhang. Mr. Zhang is the beneficiary under such trust.

Note 2. Entities shaded in grey will be the Subsidiary Guarantors of the Notes.

## BUSINESS

### OVERVIEW

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. We were ranked No.5 worldwide and No.2 in China in terms of output of aluminum products in 2013 by CRU Group. As of December 31, 2013, we were ranked No.3 in China and No.1 among all non-state owned aluminum manufacturers in China in terms of production capacity by Antaike. We have vertically integrated operations that cover the entire aluminum industry value chain consisting of production facilities for alumina, molten aluminum alloy and aluminum alloy ingot, aluminum fabrication production facilities as well as self-supporting power generation facilities.

We believe that we enjoy sustainable profitability because of our vertically integrated business model, our cost advantages and high operational efficiency and centralized procurement of raw materials and local electricity supply. We are strategically headquartered in Zouping County, Shandong Province, within an end-to-end industrial aluminum production cluster that includes raw material suppliers and local down-stream users, which we believe provides us with substantial cost and operational advantages and results in other synergies. All of our manufacturing bases and one of our main electricity and alumina suppliers, Gaoxin, are in close geographic proximity to each other (within 80 km of 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 four manufacturing bases in Zouping, Weiqiao, Binzhou and Huimin, respectively. Our weighted average production capacity of aluminum products was approximately 1.5 million tons, 1.7 million tons and 2.4 million tons for the years ended December 31, 2011, 2012 and 2013, respectively, with utilization rates of approximately 105.7%, 104.6% and 99.4%, respectively, during the respective years. As of December 31, 2013, we had a designed annual production capacity of approximately 3.0 million tons. We expect our designed annual production capacity of aluminum products to reach 3.5 million tons by the end of 2014.

### *Our Products*

Our aluminum products mainly consist of molten aluminum alloy, aluminum alloy ingots, aluminum alloy casting-rolling products and aluminum busbars. Our aluminum products are made from alumina and carbon anodes through a smelting process by means of electrolytic reduction. We sold approximately 1.6 million tons, 1.8 million tons and 2.4 million tons of aluminum products and generated revenue of approximately RMB22,928.4 million, RMB24,266.1 million and RMB29,227.6 million (US\$4,828.1 million) for the years ended December 31, 2011, 2012 and 2013, respectively. Molten aluminum alloy is our major product, the sales of which accounted for approximately 74.0%, 70.7% and 80.5% of our revenue derived from aluminum products for the years ended December 31, 2011, 2012 and 2013, 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. Aluminum busbars are electrolytic aluminum blocks.

We are also developing production capacity for advanced aluminum fabrication products. In 2011, we completed a production line for aluminum alloy casting-rolling and foil products with an aggregate designed annual production capacity of approximately 30,000 tons in our Binzhou manufacturing bases as of December 31, 2013. We began operating another production line in June 2014 manufacturing high precision aluminum plate and stripe products and other aluminum products.

### ***Our Main Cost Items***

Our two main cost items in the production of aluminum are alumina and electricity. As a percentage of cost of sales, these two cost items accounted for approximately 36.8% and 36.7%, respectively, in 2011, approximately 36.1% and 36.0%, respectively, in 2012, and approximately 38.0% and 35.6%, respectively, in 2013.

We benefit from arrangements in relation to the key inputs into our aluminum products. These primarily include (i) 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, (ii) our in-house power grid connecting our four manufacturing bases, (iii) cost advantages from purchasing off-grid electricity directly supplied by Gaoxin, (iv) favorable pricing resulting from a large amount of alumina purchased in bulk nearby from our principal supplier of alumina, Gaoxin and (v) cost advantages from the production of a portion of the alumina we use in-house.

Our in-house alumina plants commenced production in 2012. In 2012 and 2013, we produced 42.8% and 62.5%, respectively, of the alumina we used in our production of aluminum products at our in-house alumina plants. As of December 31, 2013, we had an aggregate designed annual production capacity of 3.0 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 Gaoxin. Due to our long-term commitment, bulk purchase, self-pick-up arrangement and deposit, we have been able to purchase alumina from Gaoxin at prices below average market price.

In 2011, 2012 and 2013, we produced 44.0%, 58.6% and 66.2%, respectively, of the electricity we used in our production of aluminum products at our thermal power stations. As of December 31, 2013, our power station had an aggregate installed capacity of 4,380 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 Gaoxin 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 Gaoxin 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 years indicated:

<b>Alumina</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total Alumina consumed (million tons)</b> .....	3.04	3.47	4.63
Self-produced (million tons) .....	—	1.49	2.90
External purchase (million tons) .....	3.04	1.98	1.73
Self-sufficiency rate .....	—	42.9%	62.6%
Average cost (RMB/tons) .....	1,874	1,745	1,745
Market price (RMB/ton) <sup>(1)</sup> .....	2,308	2,232	2,135

(1) Source: Antaike, representing average spot market price of alumina (not including VAT) in China.

<b>Electricity</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total electricity consumed (million KWh)</b> .....	21,586	24,941	32,892
Self-produced (million KWh) .....	9,504	14,616	21,762
External purchase (million KWh) .....	12,082	10,325	11,130
Self-sufficiency rate .....	44.0%	58.6%	66.2%
Average cost (RMB/KWh).....	0.263	0.245	0.234
Market price (RMB/KWh) <sup>(1)</sup> .....	0.361	0.361	0.361

(1) Source: Antaike, representing benchmark electricity price in Shandong Province. The benchmark price is set by the PRC government and refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier's operations and other factors.

### **Our Customers**

We sell all 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 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 traders, who in turn resell our aluminum products to downstream aluminum fabrication product manufacturers or other traders. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well-known traders. As of December 31, 2013, 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 65.1%, 60.6% and 64.0% of our revenue of continuing operations for 2011, 2012 and 2013, respectively. During the three years ended December 31, 2013, among our five largest customers, those located in Zouping County are downstream aluminum fabrication product manufacturers, and those located outside of Zouping County are traders. Our history of relationship with our top customers range from one to eight years.



Our largest customer accounted for approximately 33.5%, 33.6% and 39.1% of our revenue of continuing operations for 2011, 2012 and 2013, respectively.

### **Our Competitive Strengths**

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

Founded in 1994, we have developed into a leading large-scale aluminum product manufacturer. We were ranked No.5 worldwide and No.2 in China in terms of output of aluminum products in 2013 by CRU Group. As of December 31, 2013, we were ranked No.3 in China and No.1 among all non-state owned aluminum manufacturers in China in terms of production capacity by Antaike. We believe our size and proven ability to deliver significant volumes across key customers have helped us to achieve significant economies of scale and allow us to maintain our margin and profitability. Our revenue has grown from RMB23.6 billion in 2011 to RMB29.4 billion in 2013, despite a weakening of aluminum price in that period. We believe this also ensures that customers can be reliant on us in terms of contract delivery which in turn has led to a high contract renewal rates and also allowed us to obtain significant negotiating leverage to obtain competitive commercial terms for our products.

In addition, we believe that our established market position in terms of scale and technology will enable us to benefit from the PRC government's industry policies which encourage consolidation in the Chinese aluminum industry to create larger, less polluting and more energy-efficient producers. Such policies favor large and technologically-advanced domestic aluminum product manufacturers such as ourselves. In addition, barriers to entry have increased after the NDRC published "Standard and Conditions on Aluminum Industry" in July 2013, pursuant to which the PRC government introduced more stringent requirements for new aluminum projects in terms of production scale, technology and capital. See "Regulation Overview."

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 24.8 million tons of primary aluminum, amounting to 48.7% of world total consumption in 2013. According to Antaike, China's aluminum consumption grew at a CAGR of 12.3% from 2010 to 2013, 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. Vertical integration provides us with numerous cost advantages and allows us to be more competitive in the industry. Our gross margin for the year ended December 31, 2013 was 27.7%, which we believe was among the most competitive in the Chinese aluminum production industry. As of December 31, 2013, we had a designed annual production capacity of approximately 3.0 million tons and we expect to reach 3.5 million by the end of 2014. Self-produced alumina satisfied approximately 62.5% of our total alumina demand in 2013. In addition, our captive power plant has an aggregate installed capacity of 4,380 MW as of December 31, 2013. Self-produced electricity satisfied approximately 66.2% of our total electricity needs in 2013. Furthermore, we are now developing our capacity of high value-added aluminum fabrication

products in our Binzhou and Zouping manufacturing bases. In 2011, we started building a production line in the Zouping manufacturing base for high-precision aluminum plate and strip products and other aluminum products, which became operational in June 2014. Offering high value-added aluminum fabrication products will help us to diversify our product mix as well as to capture additional profit margins, because high value-added aluminum fabrication products generally command a higher margin compared to primary aluminum products.

#### *High quality of portfolio of assets and low cost-structure*

We enjoy a competitive cost structure, which is mainly due to our high operational and planning flexibility and high quality of asset base. We believe our cost advantage is mainly a result of (i) our large-scale, cost-efficient captive power stations which provide off-grid direct power supply, (ii) 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 the year ended December 31, 2013 was approximately RMB8,866 per ton while the industry average was approximately RMB11,755 per ton, according to Antaike. We believe this helps us to differentiate ourselves from other competitors in the aluminum industry in China, specifically in the following aspects:

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

As of December 31, 2013, the production capacity of our thermal power stations was 4,380 MW, an increase from 2,730 MW as of December 31, 2012. As of December 31, 2013, our Zouping production base had a production capacity of 8x135MW and 4x330 MW, our Weiqiao production base had a production capacity of 4x330 MW and our Huiming production base had a production capacity of 2x330 MW, respectively. 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. As a result, the percentage of our electricity used that was produced in-house increased from 58.6% in 2012 to 66.2% in 2013. We expect to increase our total installed electricity production capacity to approximately 5,040 MW by the end of 2014. For the year ended December 31, 2013, our thermal power stations achieved a high capacity utilization rate with annualized average utilization hours of approximately 6,568 hours. In addition, since January 1, 2010, we have sold steam generated by our thermal power stations to Gaoxin for its alumina production. The high capacity utilization rate of our thermal power stations and sales of steam generated by these thermal power stations have further reduced our electricity generation costs.

#### *Off-grid direct power supply*

Our four manufacturing bases, self-owned thermal power stations and sole external electricity supplier, Gaoxin, are all in close proximity to each other and are connected by our in-house power supply grid which we built jointly with Gaoxin. This power supply grid enables us to purchase off-grid electricity from Gaoxin 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, including in an in-house alumina production facility with an aggregate annual production capacity of up to 3.0 million tons of alumina as of December 31, 2013. The alumina we produced at this new self-owned production facility

accounted for approximately 42.8% and 62.5% of the total alumina that we used in 2012 and 2013, respectively, and is expected to satisfy at least 60% of our total alumina needs for the year ended December 31, 2014. The production of alumina in our in-house facility will result in cost savings for us.

*Alumina supply from adjacently-located supplier*

Gaoxin, one of our main electricity and alumina suppliers, is located adjacent to our manufacturing bases. Our close geographic proximity to Gaoxin helps us save packaging and transportation costs which, together with our long term commitment and our large volume purchases, allow us to negotiate price discounts.

*Cost savings by focusing on selling molten aluminum alloy*

Sales of molten aluminum alloy accounted for approximately 74.0%, 70.7% and 80.5% of our revenue from aluminum products for 2011, 2012 and 2013, 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 Antaika, customers that buy molten aluminum enjoy cost savings of around RMB500 per ton. As such, our customers and we both benefit from higher margins.

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

We are strategically headquartered in Zouping county, Shandong Province, one of the major aluminum product manufacturing centers in China. Antaika expects annual demand for primary aluminum in the Zouping region to grow from 2.2 million tons in 2014 to 3.5 million tons in 2018, and annual demand for molten aluminum to grow from 1.9 million tons in 2014 to 3.2 million tons in 2018, representing a CAGR of 11.2%. Furthermore, Antaika expects that over 90% of the demand for aluminum in 2018 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 grow alongside aluminum demand growth in Zouping. According to Antaika, our molten aluminum production capacity accounted for 95.4% of the total molten aluminum production capacity in Zouping as of December 31, 2013.

Our manufacturing bases and one of our main suppliers, Gaoxin, and most of our key customers are all in close proximity, forming a self-sustaining end-to-end industrial aluminum production cluster. Being able to supply molten aluminum alloy provides us with a unique competitive advantage in attracting and retaining local customers in Zouping county. Most of the Group's top 10 customers have been customers for between four to seven years. 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, Gaoxin. 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 Gaoxin to provide the Group with price discounts, forging a stable and long standing mutual relationship.

Shandong Province is connected to major production bases of downstream aluminum product companies, such as those located in Henan Province, Liaoning Province and Jiangsu Province, and major alumina production bases and coal resources in Shandong Province, Shanxi Province and Henan Province by highly developed transportation networks, including highway, railway and sea transportation. As a result, together with our local suppliers and customers in the industrial aluminum production cluster, we are able to deliver products to customers and receive raw materials from suppliers in a timely and cost-effective way. Eastern China, including Shandong Province, is the second largest region in China in terms of aluminum consumption, representing 37.9% of the country's aluminum consumption for 2013, according to Antaika. 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 53.1% of China's national GDP in 2013, according to National Bureau of Statistics of China.

#### ***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 entered into long-term relationships with various commercial banks in the PRC and offshore. We further expanded our financing channels by completing a series of notes offering including RMB4 billion short-term notes and RMB4.5 billion mid-term notes in PRC with total proceeds amounting to RMB8.5 billion in 2013. We have also been granted by a number of offshore loan facilities such as an aggregate amount up to US\$580 million under the RBS 2014 Facility and an aggregate amount up to US\$400 million under the DBS 2014 Facility.

In addition, we adhere to prudent financial management policies, pursuant to which we maintain a prudent capital structure and strong liquidity profile. Our EBITDA to finance costs ratio was 7.9 for 2013. Our net debt to EBITDA ratio was 2.1 for 2013. We had bank balances and cash of more than US\$1 billion at the end of each of 2011, 2012 and 2013.

#### ***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 15 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 achieve sustainable growth of our businesses and remain competitive. To achieve this, we intend to implement the following strategies:

***Continue to expand production capacity and increase our captive power generation***

We intend to continue to increase our share of the aluminum market in China by expanding our production scale. We are in the process of expanding our existing manufacturing bases to increase our production capacity. We plan to increase the aggregate designed annual production capacity to 3.5 million tons by the end of 2014. We believe the production expansion will further enhance our overall competitiveness in the aluminum industry in China. In addition, we expect to expand our total installed electricity production capacity from 4,380 MW as of December 31, 2013 to approximately 5,040 MW by the end of 2014 to further optimize our cost structure and to reduce our reliance on our external electricity supplier.

***Further improve cost structure and achieve additional cost reductions***

We seek to improve our cost structure and achieve additional cost reductions mainly through three approaches: (1) increasing the percentage of electricity generated by our own thermal power stations relative to our total electricity consumption by improving the utilization rate and production efficiency of our own thermal power stations and by expanding our electricity production capacity to further reduce the average production cost of our aluminum products; (2) investing in, improving and upgrading our production facilities, technology and production processes, which will improve our production efficiency and allow us to achieve savings in electricity and raw materials consumption, repair and maintenance expenses and labor cost; and (3) continuing to reduce our raw material costs by leveraging the growing scale of our operations with a view to obtaining volume discounts and by increasing our in-house alumina production capacity.

***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 stripe 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 to satisfy at least 60% of our total alumina needs for the year ended December 31, 2014. We expect that the alumina we produce will contribute to a substantial portion of our supply of alumina in the future. 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. On May 29, 2014, we entered into a non-binding MOU with the Target Company and Winning, pursuant to which the Company intends to acquire the entire issued shares of the Target Company at a proposed

consideration of US\$121 million. The Target Company is primarily engaged in bauxite mining business in the Guinea and currently holds the right to develop and produce bauxite from a project for a term of 25 years from 2010 to 2035. For details of the MOU, see “— Recent Development” below.

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

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

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

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

### **RECENT DEVELOPMENTS**

#### ***Entered into a Memorandum of Understanding for a Proposed Acquisition***

On May 29, 2014, we entered into a memorandum of understanding (the “MOU”) with a company organized under the laws of Bermuda (the “Target Company”) and its existing shareholders (the “Existing Shareholders”), and Winning Logistics (Africa) Company Limited (“Winning”, together with the Company, the “Consortium”). The Target Company in the Republic of Guinea currently holds the right to develop and produce bauxite from a project for a term of 25 years (2010-2035) in the Republic of Guinea from a deposit of a total resource base of 2.2 billion tons of bauxite of which 624 million tons are classified as measured and indicated.

Pursuant to the MOU, the Target Company and the Existing Shareholders have expressed their intention to sell and the Consortium has expressed its intention to acquire the entire issued shares of

Target Company (or if applicable, a holding company to be established, the “Newco”) by itself or its affiliates (the “Proposed Acquisition”) at a proposed consideration of US\$121 million. After the completion of the Proposed Acquisition, the Target Company (or if applicable, the Newco) will be held as to 90% and 10% by us (or our affiliates) and Winning (or its affiliates), respectively.

The MOU is not legally binding upon nor enforceable against the Company, the Target Company and its Existing Shareholders, and Winning. The Proposed Acquisition contemplated under the MOU is subject to the entering into of the definitive agreement by the parties and the relevant terms and conditions have not yet been finalized and therefore the Proposed Acquisition may or may not be consummated and, if consummated, may be on terms different from those described above.

### ***Operating Performance***

The spot market prices for aluminum products in China continued to fall in the first quarter of 2014. Although prices have then rebounded since April 2014, they remained at levels below those seen in 2013. See “Risk Factors — 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.”

### ***Recent Material Term Loan Facility Agreements***

On June 4, 2014, Shandong Hongqiao entered into a facility agreement with, among others, The Royal Bank of Scotland plc as facility agent (“RBS”) (the “RBS 2014 Facility”), pursuant to which a syndicate of lenders agreed to advance to Shandong Hongqiao term loans of up to US\$580 million. See the section headed “Description of Other Material Indebtedness — Term Loan Facility Agreements — The RBS 2014 Facility” for further information.

On March 3, 2014, the Indonesian Alumina Joint Venture Company entered into a facility agreement with, among others, PT Bank DBS Indonesia as Agent, pursuant to which a syndicate of lenders agreed to advance to our Indonesian Alumina Joint Venture Company a term loan facility with an amount up to US\$400 million (the “DBS 2014 Facility”) for the purpose of funding the construction and development of an alumina refinery and associated facilities and infrastructure, which is guaranteed by our Company. See “Description of Other Material Indebtedness — Term Loan Facility Agreements — The DBS 2014 Facility” for further information.

### ***Announcement of Payment of Dividend for 2013***

During our annual general meeting on May 16, 2014, our shareholders approved for a payment of a final dividend of HK\$27.0 cents per share for 2013.

## **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 four principal products: molten aluminum alloy, aluminum alloy ingots, aluminum alloy casting-rolling products and aluminum busbars. Our molten aluminum alloy and aluminum alloy ingots are labelled as 6063 alloys and 356Z.1 alloys and our aluminum busbars are labelled as A199.70A aluminum pursuant to the State quality standards promulgated by the PRC government. See “— Quality Control.” Because 6063 alloys are thermoplastic, anti-corrosive and easy to process, they are widely used in industrial and residential construction, as well as heat and electricity conduction materials. As 356Z.1 alloys have outstanding physical and mechanical properties and are light and anti-corrosive, they are used in producing wheel hubs of automobiles. Our aluminum busbars are mainly used as parts in aluminum smelting furnaces.

Our revenue generated from aluminum products accounted for approximately 97.0%, 97.8%, 99.4% for 2011, 2012 and 2013 of our revenue derived from our continuing operations, respectively. The following table sets forth the sales volume, revenue, average selling price of, and revenue derived from, each type of our products for the years indicated:

	Year ended December 31,											
	2011				2012				2013			
	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	Volume (tons)	Revenue (RMB in millions)	Average selling price (RMB/ton)	Percentage of revenue
Aluminum products												
Molten aluminum alloy .....	1,173,652	16,972.4	14,461	71.8%	1,304,200	17,161.8	13,159	69.2%	1,929,908	23,527.3	12,191	80.0%
Aluminum alloy ingot .....	405,347	5,845.6	14,421	24.7%	497,877	6,768.7	13,595	27.3%	400,820	4,951.2	12,353	16.8%
Aluminum busbar .....	6,348	103.0	16,226	0.4%	7,097	107.1	15,091	0.4%	1,624	21.6	13,283	0.1%
Aluminum alloy casting-rolling products .....	463	7.4	15,983	0.1%	15,817	228.5	14,446	0.9%	53,198	727.5	13,675	2.5%
Subtotal .....	1,585,810	22,928.4	14,458	97.0%	1,824,991	24,266.1	13,297	97.8%	2,385,550	29,227.6	12,252	99.4%
Steam .....	5,255,568	697.6	133	3.0%	4,057,676	538.6	133	2.2%	1,332,202	176.9	133	0.6%
Total .....		23,626.0		100.0%		24,804.7		100.0%		29,404.5		100.0%



### *Molten aluminum alloy*



Molten aluminum alloy is our main product, and it accounted for approximately 74.0%, 70.7% and 80.5% of our revenue generated from aluminum products for 2011, 2012 and 2013, 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 based in Zouping County and are in close proximity to our manufacturing bases. We engage a third-party delivery service provider to deliver molten aluminum alloy to our customers. See “— Delivery of Products.” Our customers then pour the molten aluminum alloy directly into molds to produce various downstream aluminum products.

According to Antaike, approximately 30% to 40% of aluminum manufacturers in the PRC provide their customers with molten aluminum alloy as the intermediate product for further processing into aluminum fabrication products. According to Antaike, as of December 31, 2013, we were one of the two molten aluminum alloy suppliers in Zouping County. As the major aluminum supplier in Zouping County, we accounted for approximately 95.4% of the total designed annual production capacity of primary aluminum in Zouping County as of December 31, 2013, according to Antaike.

*Aluminum alloy ingots*



Sales of aluminum alloy ingots accounted for approximately 25.5%, 27.9% and 16.9% of our revenue generated from aluminum products for 2011, 2012 and 2013, 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 regions other than Zouping County, such as in other counties in Shandong Province, Beijing, Tianjin, Hebei Province, Jiangsu Province, Guangdong Province, Liaoning Province and Zhejiang Province.

#### *Aluminum busbars*



Aluminum busbars are electrolytic aluminum blocks. Sales of aluminum busbars accounted for approximately 0.4%, 0.4% and 0.1% of our revenue generated from our aluminum products for 2011, 2012 and 2013, respectively.

All of the other aluminum busbars we have manufactured were used for the construction of the production lines in our Binzhou manufacturing base. We do not intend to expand our production of aluminum busbars in the future. Instead, we intend to produce aluminum busbars only for our own use.

#### *Other aluminum products*

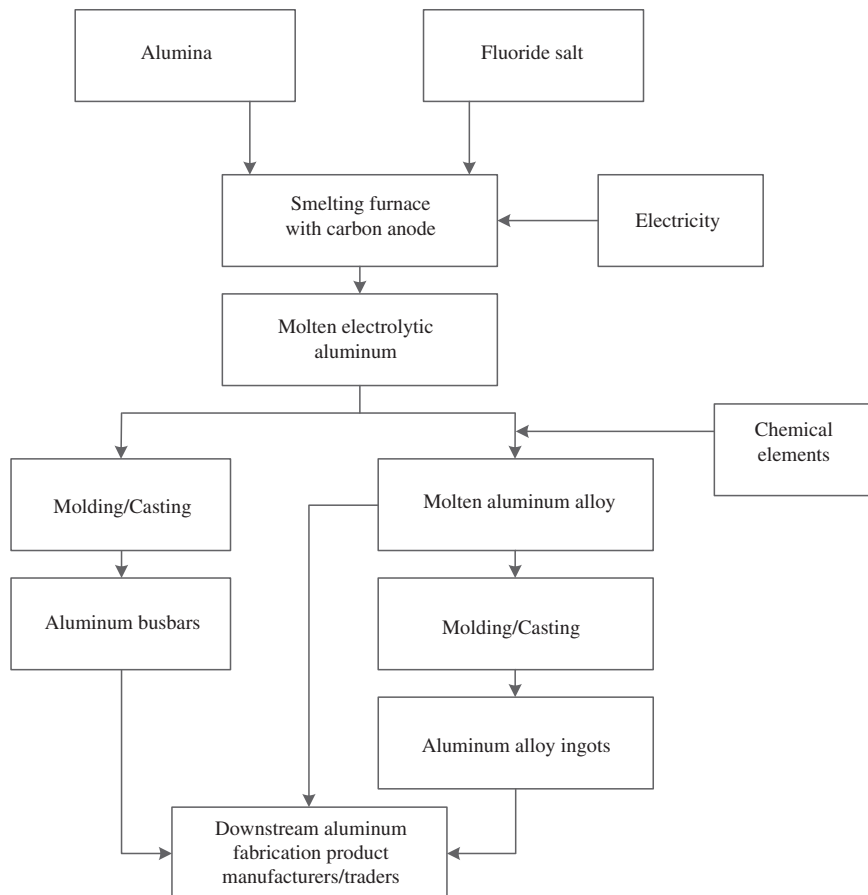
We plan to develop our capacity of advanced aluminum fabrication products in our Binzhou and Zouping manufacturing bases. In 2011, we completed a production line in our Binzhou manufacturing base for aluminum alloy casting-rolling and foil products with an aggregate designed annual production capacity of approximately 30,000 tons as of December 31, 2013. In 2011, we began building a production line in our Zouping manufacturing base for the production of high precision aluminum plate and stripe products and other aluminum products. We began operating this production line in June 2014.

## PRODUCTION PROCESS

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

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

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



## OUR PRODUCTION FACILITIES

Our Zouping, Weiqiao, Binzhou and Huimin manufacturing bases have designed annual production capacity of approximately 1,780,000 tons, 636,000 tons, 240,000 tons and 300,000 tons of aluminum product, respectively, as of December 31, 2013. Our manufacturing bases had aggregate designed annual production capacity of approximately 2,956,000 tons of aluminum products as of December 31, 2013. For the year ended December 31, 2013, we had a weighted average designed production capacity of approximately 2,381,274 tons and a production volume of 2,366,810 tons. In addition, we are in the process of expanding our manufacturing bases to increase our production capacity.

Our Weiqiao manufacturing base is located in Weiqiao Town, Zouping County, and commenced its operations in September 2006. Our Zouping manufacturing base is located in the Zouping Development District, Zouping County, and commenced its operations in July 2007. Our Binzhou manufacturing base is located in Binzhou Economic Development Zone, and commenced its operations in October 2010. Our Huimin manufacturing base is located in Huimin County and commenced its operation in May 2013. All of our manufacturing facilities are located in China's Shandong Province. Our principal equipment includes 240 kA smelting pots, 320 kA smelting pots and 400 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 three years ended December 31, 2013 and our production volumes and utilization rates for the same years:

	Year ended December 31,		
	2011	2012	2013
Designed annual production capacity at year end (tons) .....	1,776,000	2,016,000	2,956,000
Weighted average production capacity (tons) <sup>(1)</sup> .....	1,507,916	1,741,410	2,381,274
Production volume (tons) .....	1,594,193	1,821,177	2,366,810
Utilization rate <sup>(2)</sup> .....	105.7%	104.6%	99.4%

(1) The weighted average production capacity for each year is the result of (i) the total sum of the designed annual production capacity of each of our production lines multiplied by the months in that year that such production line possessed such capacity (ii) divided by 12 for each of the years ended December 31.

(2) 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.

We are in the process of expanding our manufacturing bases to increase our production capacity. For the year ended December 31, 2013, our capital expenditure on the property, plant and equipment for the expansion of our manufacturing bases and our thermal power stations was approximately RMB15,360.9 million (US\$2,537.4 million) and the relevant capital commitment was approximately RMB17,918.6 million (US\$2,959.9 million), respectively.

## PROCUREMENT

We procure raw materials and energy, including electricity and coal, from external suppliers. Our five largest suppliers together accounted for approximately 69.3%, 51.3% and 39.2%, respectively, of our total procurement for 2011, 2012 and 2013. Our largest supplier for 2011, 2012 and 2013, accounting for approximately 61.6%, 42.8% and 26.0%, respectively, of our total procurement during each of the three years ended December 31, 2011, 2012 and 2013.

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. The following table illustrates the total cost amount, volume consumed and percentage of each raw material for the years indicated:

	Year ended December 31,								
	2011			2012			2013		
	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount	Amount (RMB in thousands)	Volume (tons)	Percentage of total amount
Alumina .....	5,689,584	3,035,570	66.6%	6,062,613	3,474,149	70.6%	8,086,383	4,632,993	67.4%
Carbon anodes .....	2,503,984	768,635	29.3%	2,217,830	821,518	25.9%	3,376,965	1,260,919	28.2%
Others <sup>(1)</sup> .....	344,673	—	4.1%	302,220	—	3.5%	522,486	—	4.4%
Total .....	<u>8,538,241</u>	<u>—</u>	<u>100.0%</u>	<u>8,582,663</u>	<u>—</u>	<u>100.0%</u>	<u>11,985,834</u>	<u>—</u>	<u>100.0%</u>

(1) Others include fluorides, metals used in producing aluminum alloy, slag removal flux, refining flux, sodium carbonate, magnesium fluoride and other materials

### *Supply of alumina*

Our aggregate alumina cost amounted to RMB5,689.6 million, RMB6,062.6 million and RMB8,086.4 million (US\$1,335.8 million) for 2011, 2012 and 2013, respectively, which represented 66.6%, 70.6% and 67.4% of our total raw material cost and 36.8%, 36.1% and 38.0% of our cost of sales during the same years.

In 2012, we constructed facilities to make use of coal fly ash, including an in-house alumina production facility at Zouping with an aggregate annual production capacity of up to 3,000,000 tons of alumina as of December 31, 2013. We produced 42.8% and 62.5% of the alumina (in terms of volume) used in our production of aluminium products at our in-house alumina production facility in 2012 and 2013, respectively. We produced alumina at a cost below the purchase price of alumina that we purchase externally.

### *Alumina procurement from Gaoxin*

We entered into an alumina supply agreement, through arms-length negotiation with Gaoxin, our largest supplier on December 25, 2009, as supplemented from time to time, which extended the term of the agreement to December 31, 2015. Pursuant to the alumina supply agreement, we and Gaoxin agreed to determine the base purchase price of alumina with reference to the sales price of alumina supplied by Gaoxin to other independent third parties in early January of the relevant year. In addition, Gaoxin agreed to provide us with price discounts, and the price of alumina provided to us by Gaoxin is equal to the price of alumina offered to other third parties by Gaoxin minus an amount reflecting certain factors, such as our long-term commitment, bulk purchase, self-pick-up arrangement and deposit. Such price discounts are determined through negotiation between Gaoxin 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. In addition, if the fluctuation of alumina market price reaches or exceeds 10% of the base price of the current year, and if such fluctuation remains for no less than two months, the alumina price under the framework agreement will be adjusted accordingly.

We usually make full payments before we pick up alumina from Gaoxin. We usually make prepayments in several instalments to Gaoxin every month and Gaoxin settles the purchase price of alumina with us by issuing invoices to us at the end of every month based on our actual purchase amount. The amount of each such prepayment is determined based on the estimated amount of alumina to be consumed during the period covered by such prepayment.

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

<b>Alumina</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total Alumina consumed (million tons)</b> .....	3.04	3.47	4.63
Self-produced (million tons) .....	—	1.49	2.90
External purchase (million tons) .....	3.04	1.98	1.73
Self-sufficiency rate .....	—	42.9%	62.6%
Average cost (RMB/tons) .....	1,874	1,745	1,745
Market price (RMB/ton) <sup>(1)</sup> .....	2,308	2,232	2,135

(1) Source: Antaika, representing average spot market price of alumina (not including VAT) in China.

#### *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. Our electricity cost was approximately RMB5,674.5 million, RMB6,057.6 million and RMB7,572.3 million (US\$1,250.9 million) for 2011, 2012 and 2013, respectively, accounting for approximately 36.7%, 36.0% and 35.6% of our cost of sales during the same years. As a result, the availability and cost of electricity are key considerations in our production. To further 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 power station is located next to our Zouping manufacturing base, and the electricity generated is off the grid and is exclusively supplied to our operations. Generating electricity with our own power station costs less than purchasing electricity from external suppliers during the three years ended December 31, 2013. We have begun the construction of three new thermal power station units in 2012 to expand our electricity production capacity, which we expect to increase to approximately 5,040 MW by the end of 2014. The volume of electricity supplied by our own thermal power stations accounted for approximately 44.0%, 58.6% and 66.2% of the volume of our total electricity consumption for 2011, 2012 and 2013, respectively.

We entered into an electricity supply agreement with Gaoxin in June 2008, and Gaoxin started to supply off-the-grid electricity to us in 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. This electricity supply agreement has provided a base price, which is subject to adjustment through negotiation if the price fluctuation of coal exceeds 20%. This electricity supply agreement does not have a definite term and it will remain effective unless it is terminated by a 90-day prior written notice provided by any party or as permitted by PRC laws. Pursuant to this electricity supply agreement, Gaoxin built a power grid to connect our facilities to the generators.

We usually make full payment before we receive electricity and alumina from Gaoxin. We make prepayments in several instalments to Gaoxin every month and Gaoxin settles the purchase price of electricity with us by issuing invoices to us at the end of every month based on our actual purchase amount. The amount of each such prepayment is determined based on the estimated amount of electricity to be consumed and the purchase volume of alumina during the period covered by such prepayment.

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

Electricity	2011	2012	2013
Total electricity consumed (million KWh) .....	21,586	24,941	32,892
Self-produced (million KWh) .....	9,504	14,616	21,762
External purchase (million KWh) .....	12,082	10,325	11,130
Self-sufficiency rate .....	44.0%	58.6%	66.2%
Average cost (RMB/KWh).....	0.263	0.245	0.234
Market price (RMB/KWh) <sup>(1)</sup> .....	0.361	0.361	0.361

(1) Source: Antaika, representing benchmark electricity price in Shandong Province. The benchmark price is set by the PRC government and refers to the base price at which the electricity suppliers are able to sell electricity to the state-owned grid. The actual price of the electricity sold to the state-owned grid is subject to further adjustment to the benchmark price, which takes into account factors such as the technology utilized, the quality of coal, the size of the supplier's operations and other factors.



## *Our thermal power stations*

### *Power generation*

Our existing thermal power stations started to supply electricity to our operations in January 2007. As of December 31, 2013, our thermal power stations had an installed generation capacity of 4,380 MW. We are also in the process of further expanding our thermal power stations. We plan to expand our electricity generation capacity to approximately 5,040 MW by the end of 2014 to further optimize our cost structure and to reduce our reliance on the external electricity suppliers.

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 7,469 hours, 7,156 hours and 6,568 hours for 2011, 2012 and 2013, respectively, and the utilization rate was approximately 85.3%, 81.7% and 75.0% during the same years.

### *Steam supply*

Our power station also produces heat in the form of steam, which is a byproduct of power generation. We started to provide steam to Gaoxin for its alumina production from January 1, 2010 at a price which is determined with reference to the local market price at the time when we entered into the steam supply agreement with Gaoxin, as well as a discount because (i) Gaoxin is in close proximity to our power station, which saves our transportation cost; (ii) the existing steam transportation system saves us additional construction cost; and (iii) steam is a byproduct of electricity generation and by selling steam, we can improve the utilization rate of our power generation facilities and reduce our electricity generation cost. Our supply of steam to Gaoxin was reduced significantly since 2012, as we used our steam for in-house production of alumina.

For 2011, 2012 and 2013, we supplied approximately 5.3 million tons, 4.1 million tons and 1.3 million tons of steam to Gaoxin. Going forward, we believe we will continue to use majority of our steam for in-house production of alumina.

### *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 4,800 kilocalories to 5,300 kilocalories per kilogram and a sulfur-bearing rate below 2.5%.

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 RMB2,467.3 million, RMB3,150.0 million and RMB4,575.1 million (US\$755.8 million) for 2011, 2012 and 2013, respectively, including the coal used in the generation of electricity and steam. The purchase cost of coal accounted for approximately 16.0%, 18.7% and 21.5% of our total cost of sales for 2011, 2012 and 2013, 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:

	Year ended December 31,		
	2011	2012	2013
	(RMB/ton)		
Average coal consumption cost (excluding VAT) <sup>(1)</sup> ....	647	570	472
Average price (including VAT) of mix-quality coal quoted by Qinhuangdao Shanxi quality index <sup>(2)</sup> .....	823	693	582

Source: Antaike

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

## SALES AND MARKETING

### *Sales and marketing team*

We sell our products through our own sales and marketing team. As of December 31, 2013, we employed 241 sales and marketing personnel.

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

We have also established six sales and marketing teams covering Northeastern, Southern, Eastern and Northern China, where our customers are located. 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 are currently not a member of any futures exchanges. During the three years ended December 31, 2013, we have not participated in any futures transactions.

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 and all of our aluminum busbars customers are located in Zouping County and are in close proximity to our manufacturing bases. Our aluminum alloy ingots are primarily sold to customers in regions other than Zouping County.

### ***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 our products to customers, except that aluminum busbars are 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. We did not experience any product return during the three years ended December 31, 2013. For products sold in China other than Guangdong Province, the price is determined with reference to the mean price provided by the Yangtze River Non-ferrous Metals Spot Market, and for products sold in Guangdong Province, the price is based on the mean price provided by Nanchu Non-ferrous Metals Spot Market in Guangdong Province, while a premium or discount may be applied from time to time. We usually require our customers to make full payments 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.

## **OUR CUSTOMERS**

We sell all of our 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 65.1%, 60.6% and 64.0% of our revenue of continuing operations for 2011, 2012 and 2013, respectively. Certain of our customers are domestic premium aluminum fabrication product manufacturers and well known traders. Our largest customer accounted for approximately 33.5%, 33.6% and 39.1% of our revenue of continuing operations for 2011, 2012 and 2013, respectively. Sales volume of our aluminum products was approximately 1.6 million tons, 1.8 million tons and 2.4 million tons for 2011, 2012 and 2013, respectively.

During the three years ended December 31, 2013, our customers included downstream manufacturers, who processed our aluminum alloy products into aluminum fabrication products, such as aluminum plates, aluminum wire and wheel hubs, and 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 three years ended December 31, 2013, our five largest customers were located in Zouping County and Guangdong Province. During the three years ended December 31, 2013, among our five largest customers, those located in Zouping County are downstream fabrication aluminum product manufacturers, and those located outside of Zouping County are traders.

As most of our molten aluminum alloy customers are located in Zouping County, there is a high geographic concentration of our customers. Our revenue of molten aluminum alloy accounted for approximately 74.0%, 70.7% and 80.5% of our revenue of aluminum products for 2011, 2012 and 2013, respectively.

## **INVENTORY CONTROL**

We had inventories, exclusive of those held for sale, of approximately RMB1,908.6 million, RMB3,110.7 million and RMB10,136.2 million (US\$1,674.4 million) as of December 31, 2011, 2012 and 2013, respectively. Our average turnover days of inventory, exclusive of those held for sale, were 36, 55 and 114 days for 2011, 2012 and 2013, respectively. The increases in our average turnover days of inventory were primarily due to (i) the increase in the inventory of raw materials required for our production, followed by the expansion of our production scale and the increase in product categories due to the start-up operation of new production line for aluminum products and (ii) we increased our bauxite reserve to ensure the supply of raw materials.

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 also 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 alloy products are set out in the documents GB/T 3190 — 2008, GB/T 8733 — 2007 and GB/T 1196 — 2002 published by the PRC government, which prescribe the national standards in relation to the different chemical components of aluminum alloys. Our aluminum alloy products are labelled as 6063 and 356Z.1 pursuant to these standards.

The following table sets forth the components of 6063 aluminum alloy under GB/T 3190 — 2008:

	Chemical components										Al	
	Si	Fe	Cu	Mn	Mg	Cr	Ni	Zn	Zr	Other		
										Individual		Aggregate
6063.....	0.2-0.6	0.35	0.10	0.10	0.45-0.9	0.10	—	0.10	—	0.05	0.15	Remaining

The following table sets forth the components of 356Z.1 aluminum alloy under GB/T 8733 — 2007:

	Chemical components										Al	
	Si	Fe	Cu	Mn	Mg	Be	Zn	Sn	Pb	Other		
										Individual		Aggregate
356Z.1.....	6.5-7.5	0.45	0.2	0.35	0.3-0.5	0.10	0.2	0.01	0.05	0.05	0.15	Remaining

The standards for our aluminum busbars are set out in the document GB/T 1196 — 2002 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 busbars are graded A199.70A, which means the impurities contained in our aluminum busbars are no more than 0.3%.

We emphasize quality in our manufacturing processes. To closely monitor our manufacturing processes, we have established a quality control department. As of December 31, 2013, we had 966 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. Due to our extensive and stringent quality control system, we did not have any sales returns during the three years ended December 31, 2013.

## **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 are in the process of developing our research and development center, and 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 have engaged Binzhou Yinhe, as our exclusive service

provider for the delivery of molten aluminum alloy. Binzhou Yinhe has been our exclusive molten aluminum alloy delivery service provider through a competitive bidding among four logistics service providers since June 2007, as Binzhou Yinhe demonstrated their expertise in transportation of hazardous goods and strong financial condition and offered us the lowest price among the bidders.

## **INTELLECTUAL PROPERTY RIGHTS**

We place emphasis on protecting the intellectual property rights of our products, processes and technologies. As of December 31, 2013, we were not aware of any of our employees disclosing our intellectual properties which are material to our business to third parties in breach of their contractual obligations.

As of December 31, 2013, we owned the domain names [www.hongqiaochina.com](http://www.hongqiaochina.com), [www.hongqiao-china.com](http://www.hongqiao-china.com), [www.hongqiaogroup.cn](http://www.hongqiaogroup.cn) and [www.hongqiaoxc.com](http://www.hongqiaoxc.com). As of December 31, 2013, we also had seven registered trademarks in Hong Kong, two registered trademarks in the PRC and one trademark application in the PRC for our aluminum products.

## **COMPETITION**

The aluminum industry is highly competitive in China. As of December 31, 2013, according to Antaike, there were 91 primary aluminum manufacturers in China, and the average designed annual aluminum production capacity of these manufacturers was 256,000 tons of primary aluminum products, including pure aluminum products and aluminum alloy products. According to Antaike, as of December 31, 2013, only 17 primary aluminum manufacturers in China had a designed annual primary aluminum production capacity of 500,000 tons or more, which accounted for approximately 50.4% of the total primary aluminum production capacity in China.

Molten aluminum alloy is our most popular product in terms of sales volume and revenue. As molten aluminum alloy is a hazardous material for transportation and needs to be stored in a specially designed container to maintain a high temperature during delivery, purchasers of molten aluminum alloy are always located in close proximity to the manufacturing facilities of molten aluminum alloy. As the major aluminum supplier in Zouping County, we accounted for approximately 95.4% of the total designed annual production capacity of primary aluminum in Zouping County as of December 31, 2013, 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 (排汙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. An environmental impact assessment of each project must be performed and an assessment report must be submitted to the relevant environmental protection authority for approval. Any failure to comply with such laws and regulations may result in the relevant environmental protection authority issuing orders to suspend construction and implement measures to rectify the non-compliance. In circumstances where such rectification measures are not completed by the required deadline, the responsible entity may be fined between RMB50,000 and RMB200,000.

Also, production activities may not begin until the project has been inspected and approved by the relevant environmental protection authority. Any failure to comply with such laws and regulations may result in the relevant environmental protection authority issuing orders to suspend production and the responsible entity being fined up to the amount of RMB100,000.

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

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

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

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



### *Our environmental protection measures*

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

As of December 31, 2013, our environmental protection department which was established in August 2007 comprised of nine environmental protection personnel, all of whom 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, has about eight years of experience in environmental protection, and our environmental protection personnel have an average of more than four years of experience in environmental protection. In addition to these environmental protection personnel, as of December 31, 2013, we also had more than 2,008 production personnel who were responsible for the operations, monitoring and maintenance of our environmental protection facilities.

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

### **WORK SAFETY**

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

We have devoted a substantial amount of resources to work safety and accident prevention. We are committed to providing a safe and healthy working environment for our employees and have received GB/T 28001:2001 certification for our occupational health and safety management system in January 2011. GB/T 28001:2001 is a voluntary national PRC standard for occupational health and safety

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

## **PROPERTIES**

As of December 31, 2013, we operated our businesses through six properties in the PRC for our production facilities, offices and other places of operations. These properties comprised: (i) the land use rights to 21 parcels of land with a total site area of approximately 12.0 million sq.m.; (ii) 253 buildings with a total gross floor area of approximately 1.5 million sq.m.; and (iii) 166 buildings under construction with a total planned gross floor area of approximately 0.9 million sq.m. We have obtained all the required land use rights and building ownership certificates for all of our land and completed buildings, respectively.

## **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 RMB21,960 million (US\$3,627.5 million) as of December 31, 2013. 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, Binzhou Yinhe, our delivery service provider, is responsible if such losses and damages are attributable to its fault. The logistics service providers for aluminum alloy ingots, aluminum alloy casting-rolling products and aluminum busbars are generally responsible for losses of and damages to our products incurred during delivery pursuant to the relevant service agreements. We do not maintain any product liability insurance. We have not made any material claims under our insurance policies and have not experienced any material business interruptions since we commenced our operations.

## EMPLOYEES

As of December 31, 2013, we employed approximately 38,320 full-time employees. The table below sets forth the breakdown of our employees by functions as of December 31, 2013.

<b>Function</b>	<b>Number of employees</b>
Aluminum production .....	23,912
Alumina production.....	4,705
Power station .....	5,764
Supply.....	612
Sales, marketing and delivery.....	241
Quality control.....	966
General management .....	<u>2,120</u>
Total .....	<u><u>38,320</u></u>

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 has 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 has 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 has 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 circular, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened material arbitration, litigation or administrative proceedings against us.

## 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 Regulation.

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

Pursuant to the requirements of the Guiding Opinions on Further Improvement in Financial Services Support for Key Industries and Adjustment Revival and Control of Industries with Excess Capacity (關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見) (the “Guiding Opinions”), no credit support will be provided to projects that do not comply with the industry policies or Entry Conditions or those that do not meet the requirements of technology or capital adequacy. The enterprises or projects which are not in compliance with the Guiding Opinions and the Regulation, or industries that have been stated to have overcapacity, are prohibited from obtaining financial support through issuing new corporate bonds, short-term debentures, mid-term bills, convertible bonds and shares or an increase in the share capital. On April 14, 2011, the Ministry of Industry and Information Technology, the NDRC and seven other ministries jointly promulgated the Emergency Notice on the Electrolytic Aluminum Industry to Curb Overcapacity and Redundant Construction and Guide the Healthy Development of the Industry (《關於遏制電解鋁行業產能過剩和重複建設引導產業健康發展的緊急通知》, the “Notice”). Pursuant to the Notice, the PRC government has prohibited the construction of new and the expansion of existing electrolytic aluminum projects. From the date of

issue of the Notice, all proposed electrolytic aluminum projects must be halted immediately. The PRC government encourages technological progress, energy conservation and structural adjustment. Coalition of aluminum and electricity is encouraged and appropriate development of straight power supply to major enterprises in compliance with laws and regulations of environmental protection, land administration and investment control is encouraged. The Notice provides that proposed electrolytic aluminum projects should be carefully reviewed and prohibits the expansion of electrolytic aluminum capacity in any way.

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

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

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

### **Environmental Protection**

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”), which was promulgated and came into force in 1989, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health.

The State Environment Protection Administration of the PRC (中華人民共和國國家環境保護總局), which has been renamed as the Ministry of Environment Protection of the PRC (中華人民共和國環境保護部), is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste discharged in the PRC.

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

Depending on the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and terminate the business operation; imposition of administrative sanctions or investigation and imposition of criminal liabilities on the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

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.

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. As of May 31, 2014, there has never been any administrative penalty imposed for breaching environmental protection laws and regulations.

## 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, 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 a retrospective effect since January 1, 2008, 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, Zong Heng Law Firm, that there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we or the Subsidiary Guarantors are treated as a PRC resident enterprise, interest in respect of the Notes or payments under the guarantees may be treated as income derived from sources within the PRC and may be subject to withholding tax and gains from the transfer of Notes might be subject to PRC tax, at a rate of 10% in the case of non-PRC resident enterprise holders (or 7% if the investors were Hong Kong residents) and at a rate of 20% in the case of non-PRC individual holders. In the event that we and/or our non-PRC subsidiaries are treated as a “resident enterprise” for enterprise income tax purposes, our and/or such subsidiaries’ worldwide income, excluding dividends received from PRC subsidiaries, will be subject to PRC income tax.

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



dividends in accordance with such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such PRC resident company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the PRC resident company.

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

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

#### **VAT**

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例) and its implementation regulations as amended on November 5, 2008 by the State Council and implemented since January 1, 2009, 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 (13% for the steam sold by Aluminum & Power).

#### **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 August 20, 2005, effective as from October 1, 2005 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, 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, 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 on 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, 2012, we had not been subject to any 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.

### **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 2014, our Company has not had imposed any administrative penalties due to violation of foreign exchange laws and regulations.

Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular 75, promulgated on October 21, 2005 by the State Administration of Foreign Exchange of the PRC and implemented since November 1, 2005, domestic residents engaged in equity financing and round-trip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, share transfer or exchange, merger or division, investment with long term equity or credits, provision of guaranty to another party and is not involved in any round-trip investment, the domestic resident shall, within 30 days from the major event, apply to the foreign exchange office for modification or archival filing of the foreign exchange registration of the overseas investments. As a domestic resident, our ultimate controller Mr. Zhang, is required to handle foreign exchange registration of overseas investments in accordance with the Circular 75, as well as go through procedures of modification as required.

#### **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 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, 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 the Board of Directors of our Company:

Name	Age	Position
ZHANG Shiping .....	67	Chairman and executive Director
ZHENG Shuliang .....	67	Vice chairman and executive Director
ZHANG Bo.....	44	Chief executive officer and executive Director
QI Xingli .....	49	Chief financial officer and executive Director
YANG Congsen.....	44	Non-executive Director
ZHANG Jinglei.....	37	Non-executive Director
XING Jian .....	64	Independent non-executive Director
CHEN Yinghai .....	54	Independent non-executive Director
HAN Benwen.....	63	Independent non-executive Director

### Executive Directors

**Mr. Zhang Shiping** (張士平), aged 67, was appointed the chairman and an executive Director of our Company on January 16, 2011 and is responsible for the overall strategic planning of our Group. He graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a diploma in cotton testing in December 1991. He is recognized as a qualified senior economist by the Shandong Economic Professional and Technical Title Senior Evaluating Committee (山東省經濟專業職務高級評審委員會) in 1989. Mr. Zhang Shiping has been the director of Shandong Hongqiao since July 1994. He held the positions of general manager of Chuangye Group (including its predecessor) from March 1996 to April 1998, the chairman of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) (including its predecessor) from May 1998 to October 2000, a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) from November 2001 to May 2010 and chairman of Aluminum Technology from December 2002 to September 2007. He is currently the chairman of Chuangye Group, a non-executive director of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698), chairman of Zouping Supply and Marketing Investment Co., Ltd (鄒平供銷投資有限公司), Party Secretary of Shandong Weiqiao Investment Holding Limited (山東魏橋投資控股有限公司) (formerly named as Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社)), chairman of Hongqiao Holdings, and chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited. Mr. Zhang Shiping is the founder of our Group and joined Aluminum & Power in December 2002 as a director. He has four years' experience in aluminum industry since the commencement of aluminum business by our Group in 2006. Mr. Zhang Shiping joined our Group in July 1994. He was a deputy to the 9th, 10th and 12th National People's Congress and was selected by the State Council as "National Model Worker in 1995." He is the husband of Ms. Zheng Shuliang, the father of Mr. Zhang Bo and the father-in-law of Mr. Yang Congsen.

**Ms. Zheng Shuliang** (鄭淑良), aged 67, was appointed the vice chairman and an executive Director of our Company on January 16, 2011. 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. Ms. Zheng Shuliang joined our Group in July 2009 and has been a director and vice chairman of Shandong Hongqiao. She is the wife of Mr. Zhang Shiping, the mother of Mr. Zhang Bo and the mother-in-law of Mr. Yang Congsen.

**Mr. Zhang Bo** (張波), aged 44, was appointed an executive Director and chief executive officer of our Company on January 16, 2011. He graduated from Shandong Broadcast and Television University (山東廣播電視大學) majoring in financial accounting and has obtained a bachelor degree in economics in August 1996. He also obtained a master's degree in software engineering in Wuhan University (武漢大學) in June 2005. He is responsible for overseeing our Group's general operation, marketing and promotion for our Group. He has more than 15 years of management experience. He had also been the deputy general manager of Chuangye Group from April 1998 to February 1999, general manager, executive director, chairman of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) (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 is currently a director of Chuangye Group. Mr. Zhang Bo joined our Group in 2006 and has been the general manager and the chairman of the board of directors of Aluminum & Power since November 2006. Mr. Zhang Bo has seven years' experience in aluminum industry. He is familiar with and has expertise in the aluminum industry. He is a deputy to the People's Congress of Shandong Province, and was selected by the State Council as "National Model Worker" in 2010. Mr. Zhang Shiping is his father, Ms. Zheng Shuliang is his mother and Mr. Yang Congsen is his brother-in-law.

**Mr. Qi Xingli** (齊興禮), aged 49, was appointed an executive Director and the chief financial officer of our Company on January 16, 2011. He graduated as a correspondence student<sup>3</sup> from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a university diploma in financial accounting in June 1998. He also obtained the certificate as an international certified senior accountant by the International Profession Certification Association in June 2010. He oversees our Group's finance and accounting functions and has over 20 years' experience in the cotton textile industry. He had also been deputy director and director of the financial division, deputy general manager and director of Chuangye Group (including its predecessor) from February 1994 to October 2000, general manager, executive director and the chief financial officer of Weiqiao Textile Company Limited (魏橋紡織股份有限公司) (stock code: 2698) from November 1999 to June 2010, a supervisor of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) from July 2001 to May 2010 and a director 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. Mr. Qi Xingli joined our Group in June 2010. He is currently a director of Hongqiao Trading since April 2012.

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<sup>3</sup> Correspondence education means a distance learning course that aims to deliver education to students who are not physically "on site" in a traditional classroom or campus. The correspondence student may take courses online or by correspondence with teachers. The correspondence education offered by institutions shall be accredited by the Ministry of Education of PRC.

Mr. Qi Xingli was admitted to Shandong Cadre Correspondence University as a correspondence student in July 1995 and after taking all the courses required by the undergraduate teaching plan by correspondence, Mr. Qi Xingli received his diploma in June 1998.

## Non-Executive Directors

**Mr. Yang Congsen** (楊叢森), aged 44, was appointed a non-executive Director of our Company on January 16, 2011. He graduated as a correspondence student from Ocean University of Qingdao (青島海洋大學) and obtained a junior college diploma in international trade in July 1998. Mr. Yang obtained the master's degree of business administration from Dalian University of Technology (大連理工大學) in July 2006. He was responsible for the production and operation of the in-house power stations of our Group prior to our IPO in March 2011 and has over 13 years' management experiences. 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 Station of Shandong Weiqiao Chuangye Group Co., Ltd (山東魏橋創業集團有限公司熱電廠) from December 1999 to October 2003 and deputy general manager of Chuangye Group from January 2005 to June 2006. He joined our Group in January 2007. He was also the deputy general manager of Aluminum & Power prior to our IPO in March 2011. He is currently a director of Chuangye Group. He is the son-in-law of Mr. Zhang Shiping, Ms. Zheng Shuliang and the brother-in-law of Mr. Zhang Bo.

**Mr. Zhang Jinglei** (張敬雷), aged 37, was appointed a non-executive Director of our Company on January 16, 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 Company Limited (stock code: 2698) (魏橋紡織股份有限公司) (including its predecessor) in October 1997, and worked in the sales department of Weiqiao Textile Company Limited (including its predecessor) from September 1998 to September 2000. He worked at the securities office, production technology section and the securities department of Weiqiao Textile Company Limited from October 2000. Mr. Zhang Jinglei joined our Group in January 2011. He is currently an executive director and company secretary of Weiqiao Textile Company Limited (stock code: 2698) (魏橋紡織股份有限公司).

## Independent Non-Executive Directors

**Mr. Xing Jian** (邢建), aged 64, was appointed an independent non-executive Director of our Company on January 16, 2011. He has completed an e-correspondence course of the Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院)<sup>4</sup> and obtained a university diploma in economics and management in December 1995. He held the positions of deputy secretary and secretary of Weiqiao Town of Zouping County from August 1982 to October 1985, deputy mayor of Zouping County from October 1985 to February 1987, deputy secretary and county mayor of Gaoqing County from February 1987 to January 1994, director and Party Secretary of Audit Bureau of Zibo City of Shandong Province from July 1994 to March 1999, deputy commissioner and Party Secretary of Special Commissioner Office of National Auditing Administration in Jinan from April 1999 to January 2001, deputy director of Head Office Service Bureau of National Auditing Administration from January 2001 to May 2002, director of Building Materials Auditing Bureau of National Auditing Administration from May 2002 to August 2008 and auditor of Social Insurance Auditing Bureau of National Auditing Administration from August 2008 to June 2009.

**Mr. Chen Yinghai** (陳英海), aged 54, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from the School of Textile Science and Technology of

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<sup>4</sup> Mr. Xing Jian was admitted to the Correspondence Institute of the Party School of the Central Committee of C.P.C. in August 1993 as a correspondence student, and he took the courses by correspondence. After passing all the courses required, Mr. Xing Jian obtained his diploma in December 1995.



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

**Mr. Han Benwen** (韓本文), aged 63, was appointed an independent non-executive Director of our Company on January 16, 2011. He graduated from Shandong University (山東大學) and obtained a certificate in foreign economy in May 1994. He is a certified public accountant recognized by the Shandong branch of the Chinese Institute of Certified Public Accountants (山東省註冊會計師協會) and is a qualified middle-level auditor. Mr. Han worked in Zouping County Audit Bureau (鄒平縣審計局) as a clerical officer from August 1985 to December 1999 and in Shandong Jianxin Certified Public Accountants Corporation (山東鑿鑫會計師事務所有限公司) (“Jianxin,” formerly known as Zouping Jianxin Certified Public Accountants Corporation) as an accountant from December 1999 to February 2007. Jianxin had performed certain audit, registered capital verification and asset appraisal work for our Group and was engaged by our Group to issue a capital verification report on Shandong Hongqiao and issued such report on March 11, 2010. Mr. Han Benwen confirmed that he has not been involved in the provision of any service to our Group, Chuangye Group or its subsidiaries during his employment with Jianxin. Mr. Han Benwen had ceased to work at Jianxin since March 2007 and confirmed that he had never been involved in Jianxin or the business dealings between Jianxin and our Group. 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.

### Senior Management

**Ms. Zhang Ruilian** (張瑞蓮), aged 36, is the vice president of our Company and the manager of the accounting department of our Company. 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 has over 13 years’ accounting experience. Ms. Zhang Ruilian joined our Group in June 2006. She held the positions of the manager of audit department of Chuangye Group from December 2005 to June 2006 and manager of accounting department of Aluminum & Power from June 2006 to July 2009. She is currently the manager of accounting department of Aluminum & Power and manager of accounting department of Shandong Hongqiao and a director of Hongqiao Trading since April 2012.

**Mr. Deng Wenqiang** (鄧文強), aged 42, is the vice president of our Company. He graduated from Kunming University of Science and Technology (昆明理工大學) and obtained the bachelor’s degree in non-ferrous metal metallurgy in July 1995 and is a qualified engineer. Mr. Deng Wenqiang joined our Group in January 2003. He is responsible for the production, research and development of aluminum products of our Group. Mr. Deng Wenqiang 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, deputy general manager of Shandong Hongqiao and general manager and director of Huimin Huihong. In 2005, he was recognized as the Advanced Individual of Science and Technology Work by Shandong Province Metallurgical

Industry Corporation. In 2000, he was awarded first prize for his quality control achievements by Shandong Province Metallurgical Industry Corporation. He was elected as the representative of the 15th People's Congress of Zouping County and the 9th People's Congress of Binzhou Municipality.

### **Company Secretary**

**Ms. Zhang Yuexia** (張月霞), aged 38, was appointed the secretary of our Company on January 16, 2011. She graduated from Binzhou Normal Specialized 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 12 years' 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 Company Limited (魏橋紡織股份有限公司) (stock code: 2698) from March 2008 to January 2010. She is currently a director of Hongqiao Trading since April 2012. Ms. Zhang Yuexia had not served any position in our Group prior to January 16, 2011.

### **Board Committees**

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

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

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

#### ***Nomination Committee***

We have established a nomination committee with written terms of reference. The current members of the nomination committee are Mr. Zhang, Mr. Han Benwen and Mr. Xing Jian. 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. The remuneration committee is chaired by Mr. Han Benwen, an 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, 2011, 2012 and 2013 was approximately RMB5,340,000, RMB5,379,000 and RMB5,410,000 (US\$893,668), 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, 2011, 2012 and 2013 were approximately RMB4,440,000, RMB4,479,000 and RMB4,510,000 (US\$744,999), 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 three years ended December 31, 2013 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 December 31, 2013 by (i) our directors and (ii) those persons known by us to beneficially own 5% or more of our outstanding shares.

Name of beneficial shareholder	Capacity/nature of interest	Number of Share	Approximately Percentage of shareholding
Mr. Zhang Shiping <sup>(1)</sup> .....	Interest in a controlled corporation	5,000,000,000	84.96%
Ms. Zheng Shuliang <sup>(2)</sup> .....	Interest of spouse	5,000,000,000	84.96%
Prosperity Eastern Limited <sup>(3)</sup> ...	Trustee	5,000,000,000	84.96%
Hongqiao Holdings .....	Beneficial owner	5,000,000,000	84.96%

(1) Mr. Zhang is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the Shares held by Hongqiao Holdings. Mr. Zhang is an executive Director of our Company.

(2) Ms. Zheng, the spouse of Mr. Zhang, is deemed to be interested in all the Shares in which Mr. Zhang is interested. Ms. Zheng is an executive Director of our Company.

(3) Prosperity Eastern Limited held these Shares as trustee on behalf of Mr. Zhang Shiping.

## 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 have significant related party transactions during the three years ended December 31, 2013.

Name	Relationship	Transaction Period(s)
Chuangye Group .....	(1)	the year ended December 31, 2013
Aluminum Technology .....	Controlled by Chuangye Group	the three ended December 31, 2013

(1) Mr. Zhang, the director and the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group during most of the three years ended December 31, 2013. Chuangye Group is principally engaged in the production and sale of textiles. Our Controlling Shareholder, Mr. Zhang, owns approximately 31.59% of Chuangye Group.

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

	Year ended December 31,		
	2011	2012	2013
(RMB in thousands)			
Purchases of carbon anode blocks			
— Aluminum Technology .....	333,744	262,367	305,489
Sales of slag of carbon anode blocks			
— Aluminum Technology .....	<u>23,999</u>	<u>24,875</u>	<u>31,445</u>

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

	Year ended December 31,		
	2011	2012	2013
(RMB in thousands)			
Chuangye Group .....	—	—	488,800

Except as disclosed above and as disclosed elsewhere in our financial statements for 2011 through 2013 (and the notes thereto) included elsewhere (or incorporated by reference) in this offering circular, there was no related party transaction between us, our consolidated subsidiaries and our directors, executive officers and principal shareholders nor, in each case, the companies with whom they are affiliated, for the years indicated above.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2013, our total borrowings amounted to approximately RMB30,557.9 million (US\$5,047.8 million), of which approximately RMB4,384.7 million (US\$724.3 million) were secured borrowings. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

### Offshore Financing

#### *The Convertible Bonds*

On April 10, 2012, we issued US\$150,000,000 aggregate principal amount of 6.5% convertible bonds, convertible into fully-paid ordinary shares with a par value of US\$0.01 each of the Company (“Shares”). The Convertible Bonds were listed on SGX-ST on April 11, 2012. The Convertible Bonds will mature on April 10, 2017 (“Maturity Date”). The Convertible Bonds bear interest from (and including) April 10, 2012 at the rate of 6.5% per annum calculated by reference to the principal amount thereof and payable in US dollars semi-annually in arrears in equal installments in April and October in each year, commencing on October 10, 2012. The Convertible Bonds constitute direct, unsubordinated, unconditional and (subject to the terms and conditions of the Convertible Bonds) 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 Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to the terms and conditions of the Convertible Bonds, at all times rank at least equally with all of its other present and future senior, unsecured and unsubordinated obligations.

The Convertible Bonds may be converted into Shares at any time on or after May 21, 2012 up to the close of business on the tenth day prior to the Maturity Date, or if such Convertible Bond 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 Convertible Bond, then up to the close of business on the day prior the giving of such notice. Unless previously redeemed, converted, purchased and cancelled, the Company will redeem each Convertible Bond on the Maturity Date at 100% of its principal amount together with accrued and unpaid interest. The initial conversion price (“Conversion Price”) was HK\$7.27. 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 Conversion Price was adjusted from HK\$7.27 per Share to HK\$6.81 per Share, effective May 24, 2012, after the Company declared a final dividend of HK\$32.0 cents per Share for the year ended December 31, 2011 to the shareholders of the Company. As of December 31, 2012, the dividend of HK\$26.0 cents per Share were approved by the annual general meeting, and the Conversion Price was adjusted from HK\$6.81 to HK\$6.33 pursuant to the Convertible Bonds agreement, effective May 27, 2013. As a result of the declaration of the final dividends of HK\$27.0 cents per share for 2013 which were approved by the annual general meeting, the Conversion Price per share has been further adjusted from HK\$6.33 to HK\$5.98, pursuant to the Convertible Bonds agreement, effective June 9, 2014.

The Convertible Bonds also contain customary redemption provisions and events of default.

The Convertible Bonds are unsecured as of the date of this offering circular. However, the Convertible Bonds contain a customary negative pledge, pursuant to which holders of the Convertible Bonds 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. As a result, the trustee for the Convertible Bonds will become a party to the Intercreditor Agreement. See “Intercreditor Agreement”.

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

We have entered into term loan facility agreements with various domestic and international banks and financial institutions. Certain of these lenders (or their agents) acceded to the Intercreditor Agreement (as defined below) as secured parties from time to time, and agreed to share the Collateral on a pari passu basis. Our term loan facilities have terms generally ranging from six months to 60 months. As of December 31, 2013, the aggregate outstanding amount under these term loans totaled approximately RMB30,557.9 million (US\$5,047.8 million). The outstanding principal amount under these loans generally bear interest at floating rates calculated with reference to the London Interbank Offered Rate or Hong Kong Interbank Offered Rate.

### ***The J.P. Morgan 2012 Facility***

Shandong Hongqiao entered into a facility agreement with, among others, JPMorgan Chase Bank, N.A., Hong Kong Branch as facility agent (“J.P. Morgan”) on September 7, 2012, pursuant to which a syndicate of lenders agreed to advance to Shandong Hongqiao term loans of up to US\$460 million and HK\$320 million. All of the term loans will mature on August 15, 2015, with the principal amount payable in installments every month, starting from December 15, 2012. The interest rate for all the term loans denominated in US\$ are LIBOR plus 3.30% per annum. The interest rate for all the term loans denominated in HK\$ are HIBOR plus 3.30% annum.

The J.P. Morgan 2012 Facility is secured by certain share pledges and account receivables and contains certain financial covenants and other customary negative covenants.

### ***The J.P. Morgan 2013 Facility***

For the purpose of upsizing the financing under the J.P. Morgan 2012 Facility, Shandong Hongqiao entered into a facility agreement with, among others, JPMorgan Chase Bank, N.A., Hong Kong Branch as facility agent (“J.P. Morgan”) on January 25, 2013, pursuant to which a syndicate of lenders agreed to advance to Shandong Hongqiao term loans of up to US\$330 million. The loans are guaranteed by the Company, Hongqiao Hong Kong, Hongqiao Investment and Hongqiao Trading, as original guarantors. The J.P. Morgan 2013 Facility will mature on January 15, 2016, with the principal amount payable in installments every month, starting from August 15, 2013. The interest rate for all the term loans denominated in US\$ are LIBOR plus 3.30% per annum.

The J.P. Morgan 2013 Facility is secured by certain share pledges and account receivables and contains certain financial covenants and other customary negative covenants.

We are expecting to repay in full the J.P. Morgan 2012 Facility and the J.P.Morgan 2013 Facility using the proceeds from the RBS 2014 Facility.

### ***The RBS 2014 Facility***

On June 4, 2014, Shandong Hongqiao entered into a facility agreement with, among others, The Royal Bank of Scotland plc (“RBS”) as facility agent, pursuant to which a syndicate of lenders agreed to advance to Shandong Hongqiao term loans of up to US\$580 million for the purpose to refinance the existing facilities, namely J.P. Morgan 2012 Facility and J.P. Morgan 2013 Facility and our general corporate requirements. The RBS 2014 Facility is unsecured and will mature on June 4, 2017, with the principal amount payable in installments starting from December 4, 2015. The interest rate for all the term loans is the LIBOR plus 3.20% per annum.

The RBS 2014 Facility agreement contains certain financial covenants such as indebtedness ratios, interest coverage ratios and minimum equity requirements 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 DBS 2014 Facility***

On March 3, 2014, our Indonesian Alumina Joint Venture Company entered into a facility agreement with, among others, PT Bank DBS Indonesia as Agent, pursuant to which a syndicate of lenders agreed to advance to our Indonesian Alumina Joint Venture Company a term loan facility with an amount up to US\$400 million (the “DBS 2014 Facility”) for the purpose to fund construction and development of an alumina refinery and associated facilities and infrastructure, which is guaranteed by our Company. The DBS 2014 Facility will mature on January 3, 2015 and bears interest at a rate of LIBOR plus 3.25%~3.55% per annum.

The DBS 2014 Facility agreement contains certain financial covenants such as indebtedness ratios, interest coverage ratios and minimum equity requirements 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.

### **Intercreditor Agreement**

The Company, Shandong Hongqiao, JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch, in its capacity as facility security agent under the J.P. Morgan 2012 Facility and the J.P. Morgan 2013 Facility, The Bank of New York Mellon, London Branch, in its capacity as the common security agent (the “Collateral Agent”) entered into an intercreditor agreement (the “Intercreditor Agreement”) dated September 18, 2012. The Intercreditor Agreement provides that the security interests created by the common collateral will be shared on a pari passu basis among (i) the lenders of the J.P. Morgan 2012 Facility and the J.P. Morgan 2013 Facility and (ii) any other creditors with respect to Permitted Pari Passu Secured Indebtedness (as defined therein). It is expected that the Intercreditor Agreement will be terminated after the J.P. Morgan 2012 Facility and the J.P. Morgan 2013 Facility have been paid off.



## **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 Beijing, Bank of Communications, Bank of China, China Construction Bank, China CITIC Bank, China Everbright Bank, Evergrowing Bank, China Bohai Bank, China Guangfa Bank, Nanyang Commercial Bank (China), Shanghai Pudong Development Bank, Industrial and Commercial Bank of China and Westpac Banking Corporation Beijing Branch. We have five loans which are construction loans for our production facilities, the rest of the onshore loans are working capital loans. The maturity of our loans generally ranges from less than one year to five 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 1.20% to 8.11% per annum as of December 31, 2013. 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*

In 2013, we obtained from PRC regulators an approval to issue corporate bonds in the principal amount of approximately RMB2.3 billion through Shandong Hongqiao. As of the date of this offering circular, we have issued an amount of 1.2 billion corporate bonds.

In December 2012 and January 2013, our subsidiary, Shandong Hongqiao, issued RMB1.5 billion aggregate principal amount of 5.8% medium-term notes with a three-year term and RMB1.5 billion aggregate principal amount of 6.3% medium term notes with a five-year term, respectively.

In April 2013 and May 2013, our subsidiary, Aluminum & Power, issued RMB1.5 billion aggregate principal amount of 5.8% medium-term notes with a five-year term and RMB1.5 billion aggregate principal amount of 6.0% medium term notes with a five-year term, respectively.

In July 2013 and October 2013, our subsidiary, Shandong Hongqiao, issued RMB1.0 billion aggregate principal amount of 6.5% short-term financing notes with a one-year term and RMB1.0 billion aggregate principal amount of 6.6% short-term financing notes with a one-year term, respectively.

In March 2014, we registered with PRC regulators for the issuance of private offered notes in the principal amount of approximately RMB3.0 billion through Shandong Hongqiao. As of the date of April 2014, we have issued an amount of RMB1.0 billion notes.

In June 2014, our subsidiary, Aluminum & Power, issued RMB1.0 billion aggregate principal amount of 5.98% short-term financing notes with a one-year term and RMB1.0 billion aggregate principal amount of 5.88% short-term financing notes with a one-year term, respectively.

## DESCRIPTION OF THE NOTES

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

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

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at 40th Floor, 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;
- at least *pari passu* in right of payment with 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, including the obligations under the J.P. Morgan Facility Agreements; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Notes will mature on June 26, 2017, 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 7.625% 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 June 26 and December 26 of each year (each an “**Interest Payment Date**”), commencing December 26, 2014.

Interest on Notes held in individual certificated form will be paid to Holders of record at the close of business on June 11 and December 11 immediately preceding an Interest Payment Date and interest on Notes held in global certificated form will be paid to Holders of record at the close of business on the Business Day immediately preceding an Interest Payment Date (each, a “**Record Date**”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment, then payment of such principal, premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

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

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the City of London (which initially will be the specified office of the Paying Agent, currently located at 40th Floor, 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**, at the option of the Company, payment of interest may be made by check mailed at the Company’s expense to the address of the Holders as such address appears in the Note register maintained by the Registrar or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

### **The Subsidiary Guarantees**

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

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

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

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. In addition, the Company may elect to have any future Restricted Subsidiary organized outside the PRC (an “**Offshore Subsidiary**”) not provide

a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary by designating it as an offshore non-guarantor subsidiary in accordance with the procedures and subject to the limitations set forth below under the heading “— *Offshore Non-Guarantor Subsidiaries*” (each Offshore Subsidiary so designated, a “**New Offshore Non-Guarantor Subsidiary**” and, together with the Initial Offshore Non-Guarantor Subsidiaries, the “**Offshore Non-Guarantor Subsidiaries**”). All of the Restricted Subsidiaries that are not Subsidiary Guarantors, including the PRC Non-Guarantor Subsidiaries, the Exempted Subsidiaries and the Offshore Non-Guarantor Subsidiaries, are collectively referred to herein as the “**Non-Guarantor Subsidiaries.**”

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

As of 31 December 2013, substantially all of our outstanding consolidated indebtedness other than the Convertible Bonds due 2017, the J.P. Morgan Facilities and the facilities of Hongqiao Trading (see “*Description of Other Material Indebtedness*” for further details) was held by the Non-Guarantor Subsidiaries and any capital commitments and contingent liabilities were those of the Non-Guarantor Subsidiaries. See “*Capitalization and Indebtedness.*”

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 at least *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, including the obligations under the J.P. Morgan Facility Agreements; and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

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

## Offshore Non-Guarantor Subsidiaries

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

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

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

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

The Board of Directors may at 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 Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary 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 June 26, 2017, 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 June 26, 2017, 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 107.625% 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 not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

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

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

### **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 (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 will 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.

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 Issuer 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; or
  - (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;
- (ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
  - (iii) any withholding or deduction that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive amending, implementing or replacing such Directive or any law implementing or complying with, or introduced in order to conform to, such Directives; or
  - (iv) 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
  - (v) 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
  - (vi) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii), (iv) and (v); 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 and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "**Tax Redemption Date**") if, as a result of:

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

which change or amendment becomes effective or, in the case of a change in or stating of official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person whose jurisdiction of organization or tax residence is not already a taxing jurisdiction, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes, the Subsidiary Guarantees or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be;

**provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

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

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

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

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

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

### **Certain Covenants**

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

#### ***Limitation on Indebtedness and Preferred Stock***

- (a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness); **provided that** the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness (including Acquired Indebtedness) and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.5 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), (b)(vii), (b)(xiii), (b)(xiv) and (b)(xv) 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 designed solely 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 180 days after the acquisition of such property, asset or equipment or completion of such development, construction or improvement, and (z) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted under this clause (b)(vii) (together with, refinancings thereof) does not exceed an amount equal to 10.0% of Total Assets;
- (viii) Indebtedness Incurred by the Company or any Restricted Subsidiary with respect to workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance obligations or similar requirements (in each case other than for an obligation for borrowed money);
- (ix) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 60 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;
- (x) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); **provided that** the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the

gross proceeds actually received (with amounts escrowed by the purchaser deemed actually received to the extent such amounts are available to satisfy such obligation without restriction other than administrative conditions applicable to the release from escrow) by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

- (xi) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; **provided, however, that** such Indebtedness is extinguished within five Business Days of Incurrence;
  - (xii) (A) guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary; (B) guarantees by the Company and the Subsidiary Guarantors of each other's Indebtedness or (C) guarantees by the Company and the Subsidiary Guarantors of Indebtedness of Non-Guarantor Subsidiaries; provided, however, in the case of each of (A), (B) and (C) that the Indebtedness guaranteed is permitted to be Incurred under the Indenture and subject to the covenant described under the caption "*Limitation on Issuance of Guarantees by Restricted Subsidiaries*";
  - (xiii) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiaries in order to in effect exchange Renminbi into U.S. dollars or Hong Kong dollars; **provided that** on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(xiii) (together with any refinancings thereof) does not exceed an amount equal to 3.0% of Total Assets;
  - (xiv) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; **provided that** on the date of the Incurrence of any Indebtedness permitted by this clause (b)(xiv) and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(xiv) (together with any refinancings thereof) does not exceed an amount equal to 10.0% of Total Assets;
  - (xv) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof); and
  - (xvi) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of the company (or holding company thereof) referred to under paragraph (15) of the definition of "Permitted Investments," to the extent that (A) such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into the related sale and purchase agreement and (B) the aggregate amount of Indebtedness permitted under this clause (xvi) shall not exceed US\$150.0 million.
- (c) For purposes of determining compliance with this "*Limitation on Indebtedness and Preferred Stock*" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, 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.

#### ***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 Original Issue 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 the first day of the semi-annual period in which the Notes are originally issued 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 received by the Company after the Original Issue 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 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 Original Issue 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 Original Issue 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 Original Issue Date, (w) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Original Issue 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 Original Issue 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 Original Issue 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

Original Issue 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); plus

(v) US\$25.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable on a *pro rata* basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) the repurchase, redemption or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any Restricted Subsidiary (or their estate or authorized representatives) upon the death, disability or termination of employment of such employees or directors pursuant to agreements or plans (including employment agreements and share option plans) approved by the board of directors of the Company in an aggregate amount not to exceed US\$1 million (or the Dollar Equivalent thereof) in any fiscal year of the Company;
- (7) repurchases of Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof;

- (8) the payment of dividends on the Common Stock by the Company with respect to the fiscal year ended December 31, 2013 in an aggregate amount not to exceed HK\$27.0 cent per ordinary share of the Company; or
- (9) 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;

**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 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 if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than those under paragraphs (5) through (9) 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 Sale*" covenant to the extent required thereunder; and

- (d) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); **provided that** the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “*Limitation on Asset Sales*” covenant to the extent required thereunder.

#### ***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Non-Guarantor Subsidiary, directly or indirectly, to guarantee any Indebtedness (“**Guaranteed Indebtedness**”) of the Company or any Subsidiary Guarantor, unless (1) (A) such Non-Guarantor Subsidiary, as soon as practicable but in any event within five (5) Business Days thereafter, executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Non-Guarantor Subsidiary, whereupon it shall become a “**Subsidiary Guarantor**” and (B) such Non-Subsidiary Guarantor waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Non-Guarantor Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee is permitted by clauses (b)(iv) or (b)(xiii) (in the case of clause (b)(xiii), with respect to the Guarantee provided by any PRC Restricted Subsidiary through the pledge of one or more PRC bank accounts or deposits to secure (or the use of any Guarantee or letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness) under the “*Limitation on Indebtedness and Preferred Stock*” covenant.

If the Guaranteed Indebtedness (i) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (ii) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

#### ***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “**Affiliate Transaction**”), unless:

- (i) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable arm’s-length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company; and
- (ii) the Company delivers to the Trustee:
  - (A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

- (B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(A) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than the terms available to (or from, as applicable) a Person that is not an Affiliate of the Company, in each case issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and expenses to directors who are not employees of the Company or any Restricted Subsidiary for their service as board members of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described under the caption “— *Limitation on Restricted Payments*” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) or (7) of the second paragraph of the covenant described under the caption “*Limitation on Restricted Payments*.”

The requirements of clause (ii) of the first paragraph of this covenant shall not apply to (A) Investments (other than Permitted Investments) not prohibited by the “— *Limitation on Restricted Payments*” covenant, (B) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering circular, or any amendment or modification, renewal or replacement thereof, so long as such amendment, modification, renewal or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (C) any transaction between or among the Company or a Wholly Owned Restricted Subsidiary on the one hand and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary on the other hand or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries; **provided that** in the case of clause (C), (1) such transaction is entered into in the ordinary course of business and (2) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

In addition, the requirements of clause (ii)(B) of the first paragraph of this covenant shall not apply to any transaction between or among the Company and any Restricted Subsidiary on the one hand and an Unrestricted Subsidiary on the other hand **provided that** (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or a Restricted Subsidiary) of such Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Unrestricted Subsidiary or by reason of being a Subsidiary of the Company).

#### ***Limitation on Liens***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

#### ***Limitation on Sale and Leaseback Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; **provided that** the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (a) the Company or any Restricted Subsidiary could have (1) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under clause (a) of the covenant described under the caption “— *Limitation on Indebtedness and Preferred Stock*” and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption “— *Limitation on Liens*,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (b) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction, **provided however that** such gross cash proceeds may be equal to 70.0% or more of the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction (notwithstanding the covenant described under the caption “— *Limitation on Asset Sales*” and clause (c) below) if (i) the counter party 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) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur, at the time of and after giving pro forma effect to such Asset Disposition, 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*”;
- (d) 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\$10.0 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\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds equals or exceeds US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (i) accumulated Excess Proceeds, multiplied by
- (ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other *pari passu* Indebtedness tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other *pari passu* Indebtedness will be purchased on a *pro rata* basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

#### ***Limitation on the Company’s Business Activities***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; **provided, however, that** the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption “— *Limitation on Restricted Payments.*”

#### ***Use of Proceeds***

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (a) in the amounts and for the purposes specified under the caption “*Use of Proceeds*” in this offering circular and (b) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

#### ***Repayment of J.P. Morgan Facilities and related Securities***

Prior to August 31, 2014, the Company shall procure that (i) all outstanding amounts in respect of the J.P. Morgan Facilities be repaid, paid and discharged in full, (ii) no lender is under any actual or contingent obligation to make any further advance to the Company or any Restricted Subsidiary under the J.P. Morgan Facilities and (iii) all Liens securing the J.P. Morgan Facilities are removed or discharged.

## **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.

### ***Suspension of Certain Covenants***

If, on any date following the date of the Indenture, the Notes have an Investment Grade rating from both of the Rating Agencies and no Default or Event of Default has occurred and is continuing (a “**Suspension Event**”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have an Investment Grade rating from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*”;
- (2) “— *Certain Covenants — Limitation on Restricted Payments*”;
- (3) “— *Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*”;
- (4) “— *Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*”;
- (5) “— *Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries*”;
- (6) “— *Certain Covenants — Limitation on Sale and Leaseback Transactions*”;
- (7) “— *Certain Covenants — Limitation on Asset Sales*”; and
- (8) “— *Certain Covenants — Limitation on the Company’s Business Activities.*”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any Restricted Subsidiary as an Unrestricted Subsidiary pursuant to the covenant described under the caption “— *Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries*” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event and, following reinstatement, the calculations under the covenant described under the caption “— *Certain Covenants — Limitation on Restricted Payments*” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve an Investment Grade rating or that, if achieved, any such rating will be maintained.

### *Provision of Financial Statements and Reports*

- (a) So long as any of the Notes remain outstanding, the Company will file with 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 file with the Trustee and furnish to 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, 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\$20.0 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\$20.0 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 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 specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (subject to being indemnified and/or secured to its satisfaction), pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture that may involve the Trustee in personal liability, or

that the Trustee determines in good faith 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;
- (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; and
- (g) no Rating Decline shall have occurred.

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*”;
- (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; and

(F) no Rating Decline shall have occurred;

**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 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), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) 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), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) under the second paragraph under “*Consolidation, Merger and Sale of Assets*” and with respect to the other events set forth in such clause, clause (d) under “*Events of Default*” with respect to such other covenants and clauses (e) and (f) under “*Events of Default*” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (b) of the preceding paragraph.

#### ***Defeasance and Certain Other Events of Default***

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

## **Amendments and Waivers**

### ***Amendments Without Consent of Holders***

The Indenture may be amended by the Company, the Subsidiary Guarantors and the Trustee, without the consent of any Holder, to:

- (a) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (b) comply with the provisions described under “*Consolidation, Merger and Sale of Assets*”;
- (c) evidence and provide for the acceptance of appointment by a successor Trustee;
- (d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (f) add collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional collateral or to enter into any intercreditor agreement relating thereto;
- (g) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (h) effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;
- (i) make any other change that does not adversely affect the rights of any Holder; or
- (j) conform the text of the Indenture, the Notes or the Subsidiary Guarantees, to any provision of this “*Description of the Notes*” to the extent that such provision in this “*Description of the Notes*” was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Subsidiary Guarantees.

### ***Amendments With Consent of Holders***

Amendments of the Indenture may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; **provided**, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (b) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (c) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

- (d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or any Subsidiary Guarantee;
- (e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;
- (h) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (i) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders, except as permitted by the Indenture;
- (j) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;
- (k) change the redemption date or the redemption price of the Notes from that stated under the caption “— *Optional Redemption*” or “— *Redemption for Tax Reasons*”;
- (l) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (m) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

#### **Unclaimed Money**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

#### **No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any

successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under U.S. federal securities law or other applicable laws.

### **Concerning the Trustee and the Agents**

The Bank of New York Mellon, London Branch has been appointed as Trustee under the Indenture and as paying agent and The Bank of New York Mellon (Luxembourg) S.A. 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.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive amending, implementing or replacing such Directive, or any law implementing or complying with, or introduced in order to conform to, such Directives.

Each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

### **Book-Entry; Delivery and Form**

The Notes will be represented by a global note in registered form without interest coupons attached (the “**Global Note**”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

### **Global Note**

Ownership of beneficial interests in the Global Note (the “**book-entry interests**”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— *Individual Definitive Notes*,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common 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 principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— *Additional Amounts*.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

### **Redemption of Global Note**

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the U.S. dollar amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such

book-entry interests will be equal to the U.S. dollar amount received by the common 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 depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— *Events of Default*” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by or on behalf of the Registrar for delivery to the Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

## **Notices**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor) addressed to the Company at Huxian One

Road, Zouping Economic Development District, Zouping County, Shandong Province, the People's Republic of China, Fax: +86 543 416 2222, Attention: Mr. Zhang Shiping/Mr. Zhang Bo, or (if intended for the Trustee) addressed to Trustee at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures).

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 400 Madison Avenue, Suite 4D, New York, NY10017, 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 June 26, 2017, 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 June 26, 2017, plus all required remaining scheduled interest payments due on such Note through June 26, 2017 (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 “— *Limitation on Restricted Payments — covenant*”;
- (c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 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 (b) 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 or Hong Kong (or in any other place in which payments on the Notes are to be made) 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, société anonyme, Luxembourg.

“**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 June 26, 2017 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 June 26, 2017.

“**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 Trustee, 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.

“**Convertible Bonds**” means the 6.5% Convertible Bonds due 2017 issued by the Company on 10 April 2012.

“**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 S.A./N.V., as operator of the Euroclear System.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**Exempted Subsidiary**” means a Restricted Subsidiary organized in any jurisdiction other than the PRC that (x) is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or (y) to the extent that such approval or registration is available under any applicable law or regulation, failed to obtain any required governmental or regulatory approval or registration with respect to providing a Subsidiary Guarantee after the Company and such Restricted Subsidiary used their best efforts; **provided that** such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon the conditions set forth in (x) and (y) above cease to be in force or apply to such Restricted Subsidiary.

“**Fair Market Value**” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

“**Fitch**” means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

“**Fixed Charge Coverage Ratio**” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “**Two Semi-annual Fiscal Periods**”) to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Fiscal Periods. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “**Reference Period**”) commencing on and including the first day of the Two Semi-annual Fiscal Periods and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Fiscal Periods), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; **provided that** in the event of any such repayment or redemption,

Consolidated EBITDA for such Two Semi-annual Fiscal Periods shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi-annual Fiscal Periods in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

**provided that** to the extent that clause (d) or (e) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“**GAAP**” means International Financial Reporting Standards issued by the International Accounting Standards Board as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP.

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); **provided that** the term “**guarantee**” shall not include endorsements for collection or deposit in the ordinary course of business. The term “**guarantee**” used as a verb has a corresponding meaning.

“**Hedging Obligation**” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“**Holder**” means the Person in whose name a Note is registered in the Note register.

“**Hongqiao Hong Kong**” means Hongqiao Investment (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability.

“**Hongqiao Investment**” means China Hongqiao Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

“**Hongqiao Trading**” means Hongqiao International Trading Limited, a company incorporated in Hong Kong with limited liability.

“**Incur**” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; **provided that** (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “**Incurrence**,” “**Incurred**” and “**Incurrence**” have meanings correlative with the foregoing.

“**Indebtedness**” means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (e) all Capitalized Lease Obligations and Attributable Indebtedness;
- (f) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; **provided that** the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;
- (g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;
- (h) to the extent not otherwise included in this definition, Hedging Obligations;
- (i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and

- (j) any Preferred Stock issued by (i) such Person, if such Person is a Restricted Subsidiary or (ii) any Restricted Subsidiary of such Person, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, “Indebtedness” shall not include any Entrusted Loans, any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or any contingent obligations to refund payments (including deposits) to customers (or any guarantee thereof) in connection with mandatory obligations under or pending completion of a customer contract, in each case, entered into in the ordinary course of business and in accordance with customary market practice; **provided that**, in each case, such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided:

- (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “**Indebtedness**” so long as such money is held to secure the payment of such interest; and
- (C) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (b)(vi) of the covenant described under the caption “— *Limitation on Indebtedness and Preferred Stock*”; and (ii) equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person if not Incurred pursuant to such clause.

“**Indonesia**” means the Republic of Indonesia.

“**Interest Rate Agreement**” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“**Investment**” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person,
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),
- (3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or
- (4) any guarantee of any obligation of another Person to the extent such obligation is outstanding.

For the purposes of the provisions of the “— *Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries*”, “— *Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*” and “— *Certain Covenants — Limitation on Restricted Payments*” covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation (ii) if the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of and (iii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“**Investment Grade**” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns, or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody’s or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest Rating Categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“**J.P. Morgan Facilities**” means the loan facilities made available to the Company pursuant to the J.P. Morgan Facility Agreements.

“**J.P. Morgan Facility Agreements**” means (1) the facility agreement dated 7 September 2012 entered into between, *inter alia*, the Shandong Hongqiao and JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch, as may be amended, restated, supplemented or otherwise modified from time to time and (2) the facility agreement dated January 25, 2013 entered into by, *inter alia*, Shandong Hongqiao, as borrower, the Company, Hongqiao Hong Kong, Hongqiao Investment and Hongqiao Trading, as original guarantors, JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch as facility agent and security agent and certain lenders, as may be amended, restated, supplemented or otherwise modified from time to time.

“**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).

“**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.

**“Offer to Purchase”** means an offer to purchase the Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the **“Offer to Purchase Payment Date”**);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled *“Option of the Holder to Elect Purchase”* on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“**Officer**” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

“**Officers' Certificate**” means a certificate signed by two Officers; **provided that**, with respect to any Subsidiary Guarantor having only one Officer, an “**Officers' Certificate**” means a certificate signed by such Officer.

“**Opinion of Counsel**” means a written opinion from legal counsel selected by the Company; **provided that** such counsel shall be in form and substance acceptable to the Trustee.

“**Original Issue Date**” means the date on which the Notes are originally issued under the Indenture.

“**Pari Passu Subsidiary Guarantee**” means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or a Subsidiary Guarantor; **provided that** (i) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness under the covenant described under the caption “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*” and (ii) such guarantee ranks *pari passu* with the Subsidiary Guarantee of such Subsidiary Guarantor.

“**Permitted Business**” means any business which is the same as, related, ancillary or complementary to any of the business of the Company and its Restricted Subsidiaries on the Original Issue Date as described in this offering circular as well as businesses that constitute an upstream or downstream business of the current business of the Company.

“**Permitted Holders**” means any or all of the following:

- (1) Mr. Zhang Shiping;
- (2) the estate or the immediate family members of the Person specified in clause (1) and any trust established by Mr. Zhang Shiping for such immediate family members or himself;
- (3) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of “**Affiliate**”) of the Person specified in clause (1) or (2) of this definition; and
- (4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1), (2) and (3) of this definition.

“**Permitted Investment**” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is, directly or indirectly through one or more other Restricted Subsidiaries, primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;



- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;
- (7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments consisting of consideration received by the Company or any Restricted Subsidiary in connection with an Asset Sale made in compliance with the covenant under the caption “— *Certain Covenants — Limitation on Asset Sales*”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under the caption “— *Certain Covenants — Limitation on Liens*”;
- (10) Investments in securities or other obligations of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (11) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of a Permitted Business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet and dischargeable in accordance with customary terms;
- (12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (13) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business;
- (14) an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists solely of Common Stock of the Company; and
- (15) Investments made in a company organized under the laws of Bermuda or a holding company holding such company, which is, through its subsidiary, primarily engaged in bauxite mining business in the Republic of Guinea, in accordance with the memorandum of understanding described in the Company’s announcement with The Stock Exchange of Hong Kong Limited dated June 3, 2014; **provided that** (i) the amount of any Investment made by the Company or any Restricted Subsidiary under this clause (15) shall be based on the Fair Market Value on the date of the Investment; (ii) the aggregate amount of the Investments (valued at the time such Investments were made) made pursuant to this clause (15) shall not exceed US\$150.0 million; (iii) no Default shall have occurred and be continuing, as of the date of any Investment made under this clause (15), or would occur as a result of such Investment; and (iv) the Company could, as of the date of such Investments, Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (a) of the covenant described below under the caption “— *Limitation on Indebtedness and Preferred Stock.*”

“**Permitted Liens**” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; **provided further that** such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens incurred in the ordinary course of business securing reimbursement obligations with respect to letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments that encumber documents and other property relating to such letters of credit, trade guarantees, performance and surety bonds, completion guarantees and similar instruments and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (b)(vi) of the covenant under the caption “— *Limitation on Indebtedness and Preferred Stock*”;
- (11) Liens existing on the Original Issue Date;

- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(v) of the covenant described under the caption “— *Limitation on Indebtedness and Preferred Stock*”; **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (15) Liens (including extensions and renewals thereof) upon real or personal property, assets or equipment acquired after the Original Issue Date by the Company or any Restricted Subsidiary; **provided that** (a) such Lien is created solely for the purpose of securing Indebtedness of the type permitted to be Incurred under clause (b)(vii)(2) of the covenant described under the caption “— *Limitation on Indebtedness and Preferred Stock*,” (b) such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (c) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (d) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item;
- (16) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;
- (17) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; **provided, however, that** the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers’ compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens incurred on one or more PRC bank accounts to secure Bank Deposit Secured Indebtedness of the type described under clause (b)(xiii) of the covenant described under “— *Limitation on Indebtedness and Preferred Stock*”;
- (21) Liens on deposits or funds held in escrow arrangements securing Indebtedness permitted under clause (b)(x) of the covenant described under the caption “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*”;
- (22) Bankers’ Liens in the nature of setoff arising in the ordinary course of business and consistent with industry practice;

- (23) Liens in favor of customs and revenue authorities arising by operation of law to secure payment of customs duties in connection with importation or exportation of goods in the ordinary course of business;
- (24) Retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller, in each case in the ordinary course of business;
- (25) Liens on real or personal property or assets of any PRC Non-Guarantor Subsidiary securing any Indebtedness of a PRC Non-Guarantor Subsidiary; **provided that** the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (25) does not exceed 130% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;
- (26) Liens on real or personal property or assets of any Offshore Non-Guarantor Subsidiary securing any Indebtedness of such Offshore Non-Guarantor Subsidiary; **provided that** the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (26) does not exceed 130% 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; and
- (28) Liens with respect to obligations of the Company or any Restricted Subsidiary that in the aggregate do not exceed US\$5 million (or the Dollar Equivalent thereof) at any one time outstanding;

**“Permitted Subsidiary Indebtedness”** means any Indebtedness of the Non-Guarantor Subsidiaries, taken as a whole; **provided that**, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses (b)(i), (b)(ii), (b)(iv), (b)(vi), (b)(viii), (b)(ix), (b)(x), (b)(xi) and (b)(xii) of the covenant described under “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*”) does not exceed an amount equal to 30% of Total Assets.

**“Person”** means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

**“PRC”** means the People’s Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

**“PRC CJV”** means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on 13 April 1988 (as most recently amended on 13 October 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on 4 September 1995, as such laws may be amended.

**“PRC CJV Partner”** means with respect to a PRC CJV, the other party or parties to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

**“PRC Restricted Subsidiary”** means a Restricted Subsidiary organized under the laws of the PRC.

**“Preferred Stock”** as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

**“Rating Agencies”** means (i) S&P and (ii) Fitch and (iii) if S&P or Fitch or both shall not make a rating of the Notes publicly available, a “nationally recognized securities rating agency or agencies,” as the case may be, within the meaning of Rule 15c3-II(2)(iv)(F) under the Exchange Act, selected by the Company, which shall be substituted for S&P or Fitch or both, as the case may be.

**“Rating Category”** means (i) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P or Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

**“Rating Date”** means, in connection with actions contemplated under the caption “— *Consolidation, Merger and Sale of Assets*,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

**“Rating Decline”** means, in connection with actions contemplated under the caption “— *Consolidation, Merger and Sale of Assets*,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

**“Reference Treasury Dealer”** means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in the City of New York, selected by the Company in good faith.

**“Reference Treasury Dealer Quotations”** means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) requested by the Company and quoted in writing by such Reference Treasury Dealer at 5:00 p.m., New York city time, on the third Business Day preceding such redemption date.

“**Replacement Assets**” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

“**Renminbi**” or “**RMB**” means the lawful currency of the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of the Indenture.

“**Restricted Subsidiary**” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“**S&P**” means Standard & Poor’s Ratings Services and its affiliates and successors.

“**Sale and Leaseback Transaction**” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“**Senior Indebtedness**” of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; **provided that** Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

“**Stated Maturity**” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“**Subordinated Indebtedness**” means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“**Subsidiary**” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

“**Subsidiary Guarantee**” means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“**Subsidiary Guarantor**” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; **provided that** Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

**“Temporary Cash Investment”** means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by (i) a bank or trust company which is organized under the laws of the United States of America or any state thereof, any state of the European Economic Area, Singapore or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) (ii) a bank or trust company that is an Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of Affiliate) of a bank or trust company described in clause (i) above, or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, Industrial and Commercial Bank of China, China Construction Bank, China Development Bank and China Merchants Bank; (ii) a bank or trust company that is an Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of Affiliate) of a bank or trust company described in clause (i) above; (iii) China CITIC Bank, China Everbright Bank, China Minsheng Banking Corp., Ltd., Hana Bank (China) Company Limited, Huaxia Bank, First Gulf Bank PJSC, Cathay United Bank Company, Limited, Wing Lung Bank Limited, China Development Industrial Bank, KDB Asia Limited, Korea Development Bank and United Overseas Bank Limited, Evergrowing Bank, Shandong Rural Commercial Bank, Rural Credit Cooperative of Binzhou City Bincheng District, Qishang Bank, China Bohai Bank, Bank of Beijing, Baoshang Bank, China Guangfa Bank Co., Ltd, Crédit Agricole Corporate and Investment Bank, 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.

“**Total Assets**” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); **provided that** (i) only with respect to clause (b)(vii) or (xiii) of the covenant described under the caption “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*” and the definition of “**Permitted Subsidiary Indebtedness**,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property, asset or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness, and (ii) only with respect to the measurement of the percentage of Total Assets represented by the Consolidated Assets of all Restricted Subsidiaries organized under laws outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors, Total Assets shall be calculated after giving pro forma effect to (x) any dividends or distributions made by the Company and its Restricted Subsidiaries since the last day of such semi-annual period and (y) the consolidated assets of the Person becoming a New Offshore Non-Guarantor Subsidiary (including giving pro forma effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a New Offshore Non-Guarantor Subsidiary).

“**Trade Payables**” means, with respect to any Person, (i) any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services or (iii) any deferred and unpaid purchase price of any item that is classified as “property, plant and equipment” under GAAP and that is used in a Permitted Business, **provided that** such purchase price is fully payable within 12 months.

“**Transaction Date**” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.



“**Unrestricted Subsidiary**” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

“**U.S. Government Obligations**” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; **provided that** (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“**Voting Stock**” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“**Wholly Owned**” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; **provided that** Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

## TAXATION

*The following summary of certain Cayman Islands, British Virgin Islands and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.*

### **Cayman Islands Taxation**

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the Notes provided that they are issued, executed and remain outside the Cayman Islands.

We have been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with our Company that (i) no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and (ii) no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of our Company, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision). These concessions shall be for a period of 20 years from June 8, 2010.

### **British Virgin Islands Taxation**

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

## **Hong Kong Taxation**

### ***Withholding Tax***

No withholding tax is payable in Hong Kong on payments of principal (including any premium payable on redemption of the Notes) or of interest in respect of the Notes.

### ***Profits Tax***

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong and such revenue profits has Hong Kong source.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong, as is expected to be the case).

## **PRC Taxation**

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

### *Taxation on Interest and Capital Gains*

The EIT Law deems an enterprise established offshore but with “de facto management bodies” in the PRC to be a “resident enterprise” which is subject to the PRC EIT at a rate of 25% on its global taxable income, possibly excluding dividends received from its PRC subsidiaries. We may 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, Zong Heng Law Firm, that there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and be subject to PRC tax as described above, which may materially and adversely affect the value of investment in the Notes. See “Risk Factors — Risks Relating to Doing Business in the PRC.

### *Stamp Duty*

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering circular, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser's name.

<b>Initial Purchaser</b>	<b>Principal Amount Of Notes</b>
Deutsche Bank AG, Singapore Branch.....	US\$240,000,000
Australia and New Zealand Banking Group Limited .....	US\$100,000,000
Crédit Agricole Corporate and Investment Bank .....	US\$24,000,000
Morgan Stanley & Co. International plc .....	US\$24,000,000
Barclays Bank PLC .....	US\$8,000,000
The Royal Bank of Scotland plc .....	US\$4,000,000
<b>Total .....</b>	<b>US\$400,000,000</b>

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.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering circular only outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

We have agreed that, for a period until 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 and having a tenor of more than one year. The Initial Purchasers in their sole discretion may consent to the offering and sale of such securities by the Company or any of the Subsidiary Guarantors at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval in principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

Deutsche Bank AG, Singapore Branch (or its affiliates or any other person acting for it) 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 Deutsche Bank AG, Singapore Branch (as stabilizing manager) 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 Deutsche Bank AG, Singapore Branch (as stabilizing manager or any other person acting for it) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering circular, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days. Purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

The Initial Purchasers and their affiliates have in the past engaged in transactions with and performed services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received customary fees and expenses and they may engage in similar transactions or perform similar services for us in the future. Certain of the Initial Purchasers or their affiliates are lenders to us. See “— Description of Other Material Indebtedness.” They may provide additional loans to us in the future. Furthermore, we may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchasers or certain of their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

## **Selling Restrictions**

### ***General***

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering circular or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering circular nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### ***United States***

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons only outside the United States in offshore transactions in reliance on Regulation S and in accordance with applicable laws.

Until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

### ***European Economic Area***

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), an offer of the Notes may not be made to the public in that Relevant Member State other than:

1. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
2. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer; or
3. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above paragraph, the expression “an offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means

of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### ***United Kingdom***

No 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 the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***Hong Kong***

Each of the Initial Purchasers has represented and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 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 Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, 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***

The Initial Purchasers have acknowledged that this offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, the Initial Purchasers have represented, warranted and agreed that they have not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.



This offering circular has not been and will not be registered with the MAS. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- (i) an institutional investor (as defined in Section 4A of the SFA);
- (ii) a relevant person (as defined in Section 275 (2) of the SFA); or
- (iii) any person pursuant to an offer referred to in Section 275 (1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

1. 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
2. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;
- (ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;
- (iii) where no consideration is or will be given for the transfer;
- (iv) where the transfer is by operation of law; or
- (v) as specified in Section 276(7) of the SFA.

### ***Switzerland***

This offering circular does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this offering circular may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus scheme) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the Initial Purchasers from time to time.

### ***PRC***

This offering circular does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering circular or any other document.

### ***Cayman Islands***

No Notes will be offered or sold to the public in the Cayman Islands.

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

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to purchase or subscribe for any of the Notes.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer sale, resale, charge or other transfer of the Notes.

### United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a purchaser that is outside the United States;
2. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under 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, in each case in accordance with any applicable laws of any state or territory of the United States and any foreign jurisdiction;
3. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
4. understand that the Notes will be represented by the Global Note and that transfers thereto are restricted as described under “Description of the Notes — Book-Entry; Delivery and Form”; and
5. acknowledge that the Company, the Subsidiary Guarantors, the Trustee and the Agents, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the Trustee and the Agents and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

## **RATINGS**

The Notes have been provisionally assigned a rating of “BB” by Standard and Poor’s Ratings Services and “BB” by Fitch Ratings. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. In addition, we have been assigned a rating of “BB” with a stable outlook by Standard and Poor’s Ratings Services and “BB” with a stable outlook by Fitch Ratings. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

## **LEGAL MATTERS**

Certain legal matters with respect to the Notes will be passed upon for us by Davis Polk & Wardwell as to matters of United States federal and New York law and Hong Kong law, Zong Heng Law Firm as to matters of PRC law, Conyers Dill & Pearman (Cayman) Limited as to matters of Cayman Islands law and Conyers Dill & Pearman as to matters of British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Clifford Chance 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, 2011, 2012 and 2013 included in this offering circular have been audited by Deloitte Touche Tohmatsu 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 June 15, 2014.

### 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

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2013 that is material in the context of the issue of the Notes.

### Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the Corporate Trust Office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the Corporate Trust Office of the Trustee.

### 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:

	ISIN	Common Code
Notes .....	XS1081333921	108133392

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

## LISTING OF THE NOTES

Approval in principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering circular. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the Notes or the Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.



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## Independent Auditor's Report

TO THE MEMBERS OF CHINA HONGQIAO GROUP LIMITED  
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Hongqiao Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 94, which comprise the consolidated statement of financial position of the Group as at 31 December 2013, 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 a summary of significant accounting policies and other explanatory information.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

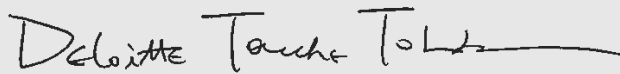
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditor's Report (Continued)

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

14 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Revenue	5	29,404,462	24,804,742
Cost of sales		(21,261,660)	(16,801,294)
Gross profit		8,142,802	8,003,448
Other income and gain and loss	7	941,621	422,439
Distribution and selling expenses		(60,128)	(58,667)
Administrative expenses		(440,171)	(306,068)
Finance costs	8	(1,359,200)	(642,731)
Other expenses		(9,125)	(20,121)
Changes in fair value of compound derivative	29	163,596	2,253
Profit before taxation	9	7,379,395	7,400,553
Income tax expense	12	(1,792,946)	(1,947,961)
Profit for the year		5,586,449	5,452,592
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(22,689)	–
Total comprehensive income for the year		5,563,760	5,452,592
Profit for the year attributable to:			
Owners of the Company		5,592,675	5,452,592
Non-controlling interests		(6,226)	–
		5,586,449	5,452,592
Total comprehensive income for the year attributable to:			
Owners of the Company		5,579,062	5,452,592
Non-controlling interests		(15,302)	–
		5,563,760	5,452,592
Earnings per share	13		
Basic (RMB)		0.95	0.93
Diluted (RMB)		0.91	0.92

# Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	39,996,661	26,711,299
Prepaid lease payments-non-current portion	16	1,138,979	1,044,404
Deferred tax assets	17	134,164	57,495
Deposits paid for acquisition of property, plant and equipment		2,040,102	1,705,469
		<b>43,309,906</b>	29,518,667
<b>Current assets</b>			
Prepaid lease payments – current portion	16	25,160	22,394
Inventories	18	10,136,223	3,110,727
Trade receivables	19	160,935	43,672
Bills receivable	20	2,048,498	1,319,684
Prepayments and other receivables	21	1,465,168	314,542
Restricted bank deposits	22	1,670,576	872,088
Bank balances and cash	22	6,362,070	9,174,943
		<b>21,868,630</b>	14,858,050
<b>Current liabilities</b>			
Trade payables	23	1,995,649	1,097,744
Bills payable		–	200,000
Other payables	24	5,344,024	3,871,241
Income tax payable		353,104	244,895
Bank borrowings – due within one year	25	9,565,774	6,659,235
Other borrowings – due within one year	25	95,000	–
Short-term debentures	26	4,000,000	–
Held-for-trading financial liabilities	27	5,278	1,084
		<b>21,358,829</b>	12,074,199
<b>Net Current Assets</b>		<b>509,801</b>	2,783,851
<b>Total Assets less Current Liabilities</b>		<b>43,819,707</b>	32,302,518
<b>Capital and Reserves</b>			
Share capital	30	386,206	386,206
Share premium and reserves		26,288,167	21,927,049
Equity attributable to owners of the Company		26,674,373	22,313,255
Non-controlling interests		208,172	24,642
<b>Total Equity</b>		<b>26,882,545</b>	22,337,897
<b>Non-current Liabilities</b>			
Bank borrowings – due after one year	25	9,655,059	7,443,657
Other borrowings – due after one year	25	235,000	–
Medium-term debentures	28	6,189,548	1,486,640
Deferred tax liabilities	17	40,000	73,763
Convertible bonds – liability component	29	750,001	729,411
Convertible bonds – derivative component	29	67,554	231,150
		<b>16,937,162</b>	9,964,621
		<b>43,819,707</b>	32,302,518

The consolidated financial statements on pages 41 to 94 approved and authorised for issue by the Board of Directors on 14 March 2014 and are signed on its behalf by:

**Zhang Shiping**  
Executive director

**Zhang Bo**  
Executive director

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (note 1)	RMB'000	RMB'000 (note 2)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	386,206	4,832,946	793,349	-	1,849,484	10,535,049	18,397,034	-	18,397,034
Profit and total comprehensive income for the year	-	-	-	-	-	5,452,592	5,452,592	-	5,452,592
Dividend recognised as distribution (Note 14)	-	-	-	-	-	(1,536,371)	(1,536,371)	-	(1,536,371)
Acquisition of a subsidiary (Note 33)	-	-	-	-	-	-	-	24,642	24,642
Transfer to reserves	-	-	-	-	708,834	(708,834)	-	-	-
At 31 December 2012	386,206	4,832,946	793,349	-	2,558,318	13,742,436	22,313,255	24,642	22,337,897
Other comprehensive income for the year	-	-	-	(13,613)	-	-	(13,613)	(9,076)	(22,689)
Profit for the year	-	-	-	-	-	5,592,675	5,592,675	(6,226)	5,586,449
Total comprehensive income for the year	-	-	-	(13,613)	-	5,592,675	5,579,062	(15,302)	5,563,760
Dividend recognised as distribution (Note 14)	-	-	-	-	-	(1,217,944)	(1,217,944)	-	(1,217,944)
Transfer to reserves	-	-	-	-	545,908	(545,908)	-	-	-
Advance contribution from non-controlling shareholder	-	-	-	-	-	-	-	198,832	198,832
At 31 December 2013	386,206	4,832,946	793,349	(13,613)	3,104,226	17,571,259	26,674,373	208,172	26,882,545

Notes:

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	7,379,395	7,400,553
Adjustments for:		
Interest income	(72,181)	(28,555)
Finance costs	1,359,200	642,731
Gain on disposal of corporate wealth management products issued by bank	(63,397)	–
Depreciation of property, plant and equipment	2,063,192	1,340,046
Loss (gain) on disposal of property, plant and equipment	(2,651)	240
Loss from changes in fair value of held-for-trading financial liabilities	4,194	1,084
Gain on fair value changes of compound derivative	(163,596)	(2,253)
Release of prepaid lease payments	22,625	21,921
Operating cash flows before movements in working capital	10,526,781	9,375,767
Increase in inventories	(7,025,496)	(1,202,081)
Increase in receivables, deposits and prepayments	(1,996,703)	(240,824)
Increase in payables, deposits received and accrued charges	542,863	150,060
Cash generated from operations	2,047,445	8,082,922
Income tax paid	(1,795,169)	(1,862,151)
Net cash generated from operating activities	252,276	6,220,771
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	(13,997,262)	(10,708,031)
Proceeds on disposal of property, plant and equipment	15,043	–
Addition to prepaid lease payments	(119,966)	(131,865)
Acquisition of a subsidiary (Note 33)	–	24,784
Interest received	72,181	28,555
Purchases of available-for-sale investments	(1,700,000)	–
Proceeds on disposal of available-for-sale investments	1,763,397	–
Placement of restricted bank deposits	(2,145,361)	(1,356,923)
Withdrawal of restricted bank deposits	1,346,873	499,303
Net cash used in investing activities	(14,765,095)	(11,644,177)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(1,217,944)	(1,536,371)
Proceeds from issue of convertible bonds	–	945,525
Payment of transaction costs on issue of convertible bonds	–	(27,765)
Proceeds from issue of medium-term debentures raised	4,500,000	1,500,000
Payment of transaction costs on issue of medium-term debentures	(36,630)	(13,658)
Proceeds from issue of short-term debentures raised	4,000,000	–
Payment of transaction costs on issue of short-term debentures	(20,000)	–
New bank borrowings raised	19,345,104	15,298,385
Repayment of bank borrowings	(14,227,163)	(8,387,696)
New other borrowings raised	390,000	1,341,882
Repayment to other borrowings	(60,000)	(1,341,882)
Interest paid	(1,151,524)	(664,866)
Advance contribution from non-controlling shareholders	198,832	–
Net cash generated from financing activities	11,720,675	7,113,554
Net (decrease) increase in cash and cash equivalents	(2,792,144)	1,690,148
Cash and cash equivalents at beginning of the year	9,174,943	7,484,795
Effect of foreign exchange rate changes	(20,729)	–
Cash and cash equivalents at end of the year, represented by bank balances and cash	6,362,070	9,174,943



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 24 March 2011. Its parent and ultimate holding company is China Hongqiao Holdings Limited, a company incorporated in the British Virgin Islands (“BVI”). The registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report.

The principal activities of its subsidiaries are set out in Note 39.

The consolidated financial statements are presented in Renminbi (“RMB”) which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied, for the first time, certain new or revised standards, amendments and interpretation (“new or revised IFRSs”) issued by the International Accounting Standards Board (“IASB”) that are mandatorily effectively for the current year.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised 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 these consolidated financial statements.





## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. For a non-financial asset, its fair value measurement falls 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. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Note 32(E) for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to IAS 1, the Group's "consolidated statement of comprehensive income" is renamed as the "consolidated statement of profit or loss and other comprehensive income". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

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

The Group has not early applied the following new and revised standards, amendments and interpretation (“new and revised IFRSs”) that have been issued but are not yet effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle <sup>4</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle <sup>2</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities <sup>1</sup>
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to IFRS 9 and IFRS 7 IFRS 9	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>3</sup> Financial Instruments <sup>3</sup>
IFRS 14	Regulatory Deferral Accounts <sup>5</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
IFRIC 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Available for application-the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

<sup>5</sup> Effective for first annual IFRS financial statements beginning on or after 1 January 2016

The directors of the Company anticipate that the application of the new and revised IFRSs, other than those set out below, will have no material impact on the consolidated financial statement.

### **IFRS 9 Financial Instruments**

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.



## **2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)**

### ***New and revised IFRSs issued but not effective (Continued)***

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on analysis of the Group's financial instruments as at 31 December 2013.

#### **IFRIC-21 Levies**

IFRIC-21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of IFRIC-21 will have no effect on the Group's consolidated financial statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with IFRS. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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 at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, 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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year 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 item of other comprehensive income 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Acquisition of a subsidiary classified as an asset acquisition

In respect of acquisition of a subsidiary which does not constitute a business, the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Revenue from steam supply is recognised when steam is provided.

Interest income from a financial asset 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.

#### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, 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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### 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.

#### 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 on 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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 period. 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).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

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

#### **Retirement benefit costs**

Payments to defined contribution retirement benefits scheme under the state-managed retirement benefit schemes in PRC are charged as an expense when employees have rendered service entitling them to the contributions.

#### **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 tax' as reported in the consolidated statement of profit or loss and 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 base 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 arising on investments in subsidiaries, 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 each reporting period.

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

#### **Taxation (Continued)**

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 each 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.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials other than coal and alumina is calculated using the first-in, first-out method while cost of coal, alumina are calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and estimated costs necessary to make the sale.

#### **Impairment of tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### **Financial assets**

The Group's financial assets are mainly classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *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 receivable, other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on loans and receivables below).

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, 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, of which interest income is included in other income.

#### *Impairment of Loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

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

##### *Impairment of Loans and receivables (Continued)*

Objective evidence of impairment for loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in local economic conditions that correlate with default on receivables.

For loans and receivables 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 loans and receivable's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable 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 loans and receivables measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

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

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

##### *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.

##### *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 future; or
- is a part of an identified portfolio of 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

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

##### *Financial liabilities at FVTPL (Continued)*

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

##### *Other financial liabilities*

Other financial liabilities including bank borrowings, other borrowings, trade payables, bills payable, medium-term debentures, convertible bonds-liability component and other payables are subsequently measured at amortised cost, using the effective interest method.

##### **Convertible bonds**

Convertible bonds issued by the Group that 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 the 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. At the date of issue, both the liability and the compound derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and compound derivative components in proportion to their relative fair values. Transaction costs relating to the compound derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

##### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

##### *Derecognition*

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 entity. 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 is recognised in profit or loss.

The Group derecognises financial liabilities 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.

##### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, the resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

##### Estimated impairment of inventories

The Group's management assesses periodically whether the inventories have been suffered from any impairment based on estimate on the net realisable value of the inventory. For different types of inventories, it requires the exercise of accounting estimates on selling price, costs of conversion and selling expenses to calculate its net realisable value. It is reasonably possible that outcomes would be significantly affected if there is a significant change in circumstances, including the Group's business and the external environment. As at 31 December 2013, the carrying amount of inventories are approximately RMB10,136,223,000 (2012: RMB3,110,727,000) as disclosed in Note 18.

##### Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 15. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

##### Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount. At the end of each reporting period, no property, plant and equipment was impaired based on the impairment assessment performed by management. It is possible that actual outcomes may be different from assumptions, having a material impact on the carrying amount of property, plant and equipment in the period when such estimate is revised.

At 31 December 2013, the directors of the Company are satisfied that there is no indication that property, plant and equipment has suffered an impairment loss. As at 31 December 2013, the carrying amount of property, plant and equipment are approximately RMB39,996,661,000 (2012: RMB26,711,299,000) as disclosed in Note 15.

##### Convertible bonds

As described in Note 29, the Company's convertible bonds contain a number of embedded derivatives that are remeasured to FVTPL at the end of each reporting period. The Company engaged an independent appraiser to assist the directors of the Company in determining the fair value of these embedded derivatives. The independent appraiser uses his judgment 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 valuation of derivative financial instruments, assumptions are made based on quoted market rates to the extent possible and adjusted for specific features of the instrument. As at 31 December 2013, the fair value of the embedded derivatives is approximately RMB67,554,000 (2012:RMB231,150,000) as disclosed in Note 29. Any changes in the assumptions of the valuation model will have a material effect on the fair value of the embedded derivatives of the convertible bonds.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 5. REVENUE

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

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

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

	2013 RMB'000	2012 RMB'000
Revenue from sales of goods		
Aluminum products		
– molten aluminum alloy	23,527,351	17,161,788
– aluminum alloy ingots	4,951,186	6,768,728
– aluminum fabrication	727,512	228,534
– aluminum busbars	21,572	107,062
Steam supply income	176,841	538,630
	<b>29,404,462</b>	24,804,742

All external revenues of the Group are contributable to customers established in the PRC, the place of domicile of the Group's operating entities.

Revenue from customers contributing over 10% of the total revenues of the Group are as follows:

	2013 RMB'000	2012 RMB'000
Customer A	11,502,777	8,324,216
Customer B	3,428,511	3,032,614

### 6. SEGMENT INFORMATION

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 6. SEGMENT INFORMATION (Continued)

#### Geographical information

The Group operates principally in the PRC (including Hong Kong), and overseas countries (including BVI, Indonesia and Cayman).

	Non-current assets (Note)	
	2013 RMB'000	2012 RMB'000
PRC	43,029,434	29,460,552
Overseas countries	146,308	620
	<b>43,175,742</b>	<b>29,461,172</b>

Note: Non-current assets excluded deferred tax assets.

### 7. OTHER INCOME AND GAIN AND LOSS

	2013 RMB'000	2012 RMB'000
Interest income	72,181	28,555
Net gain on sales of raw materials (Note)	148,236	85,756
Revenue from sales of slag of carbon anode blocks	296,833	278,010
Foreign exchange gains (losses), net	311,078	(419)
Gain (loss) on disposal of property, plant and equipment	2,651	(240)
Loss from changes in fair value of held-for-trading financial liabilities	(4,194)	(1,084)
Gain on disposal of corporate wealth management products issued by bank	63,397	–
Others	51,439	31,861
	<b>941,621</b>	<b>422,439</b>

Note: The revenue and cost resulting in the net gain on sales of raw materials are as follows:

	2013 RMB'000	2012 RMB'000
Revenue from sales of raw materials	194,773	126,613
Cost related to sales of raw materials	(46,537)	(40,857)
	<b>148,236</b>	<b>85,756</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 8. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expenses on bank borrowings		
– wholly repayable within five years	1,040,087	566,400
Interest expenses on convertible bonds (Note 29)	81,083	69,180
Interest expenses on other borrowings	17,577	19,264
Interest expenses on short-term debentures	129,562	–
Interest expenses on medium-term debentures	315,839	6,042
Transaction cost relating to compound derivative		
– component of convertible bonds (Note 29)	–	6,854
Arrangement fee of syndicated loan	–	63,705
Less: amounts capitalised under construction in progress	(224,948)	(88,714)
	<b>1,359,200</b>	<b>642,731</b>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 5.17% (2012: 6.28%) per annum to expenditure on qualifying assets.

### 9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2013 RMB'000	2012 RMB'000
Staff cost:		
Directors' and chief executive's emoluments (Note 10)	5,410	5,379
Other staff costs:		
– Wages and salaries	1,511,582	1,010,620
– Retirement benefit schemes contributions	48,700	27,785
Total staff costs	<b>1,565,692</b>	<b>1,043,784</b>
Auditors' remuneration	4,400	3,900
Depreciation of property, plant and equipment	2,063,192	1,340,046
Cost of inventories recognised as an expense	21,205,542	16,744,399
Release of prepaid lease payments	22,625	21,921

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 10. DIRECTORS' EMOLUMENTS

Details of emoluments paid to the directors of the Company are as follows:

	Fees RMB'000	Salaries and other benefits- in-kind RMB'000	Contribution to retirement benefit scheme RMB'000	Total RMB'000
<b>Year ended 31 December 2013</b>				
Executive directors				
Zhang Shiping ("Mr. Zhang")	1,500	93	–	1,593
Zheng Shuliang	500	62	–	562
Zhang Bo	800	82	7	889
Qi Xingli	700	78	6	784
Sub-total	3,500	315	13	3,828
Non-executive directors				
Yang Congsen	600	76	6	682
Zhang Jinglei	300	–	–	300
Sub-total	900	76	6	982
Independent non-executive directors				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
Sub-total	600	–	–	600
Total	5,000	391	19	5,410

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 10. DIRECTORS' EMOLUMENTS (Continued)

	Fees RMB'000	Salaries and other benefits- in-kind RMB'000	Contribution to retirement benefit scheme RMB'000	Total RMB'000
<b>Year ended 31 December 2012</b>				
Executive directors				
Mr. Zhang	1,500	85	–	1,585
Zheng Shuliang	500	58	–	558
Zhang Bo	800	76	6	882
Qi Xingli	700	72	5	777
Sub-total	3,500	291	11	3,802
Non-executive directors				
Yang Congsen	600	72	5	677
Zhang Jinglei	300	–	–	300
Sub-total	900	72	5	977
Independent non-executive directors				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
Sub-total	600	–	–	600
Total	5,000	363	16	5,379

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.

In the year ended 31 December 2013 and 2012, none of the directors waived any emoluments.

### 11. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group were all the directors during both years, details of their emoluments are set out above.

During both years, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 12. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	1,796,893	1,957,044
Hong Kong Profits Tax	106,485	12,123
Deferred tax (credit) (Note 17)	(110,432)	(21,206)
	<b>1,792,946</b>	1,947,961

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

In addition, the EIT Law provides that qualified dividend income between two "PRC-resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. An amount of RMB40,000,000 (2012: RMB73,763,000) is recognised in respect of the PRC subsidiaries' undistributed profits generated in the current year.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

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

The income tax expense 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:

	2013 RMB'000	2012 RMB'000
Profit before taxation	7,379,395	7,400,553
Tax at the PRC enterprise income tax rate of 25% (2012: 25%)	1,844,849	1,850,139
Tax effect of expenses not deductible	239	230
Tax effect of income not taxable for tax purpose	(40,899)	(563)
Tax effect of tax losses not recognised	4,929	30,637
Utilisation of deductible temporary difference previously not recognised	(888)	-
Effect of different tax rates of subsidiaries	(55,284)	(6,245)
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	40,000	73,763
Tax charge for the year	<b>1,792,946</b>	1,947,961

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 13. EARNINGS PER SHARE

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

#### Earnings

	2013 RMB'000	2012 RMB'000
Earnings for the purpose of basic earnings per share profit for the year attributable to owners of the Company	5,592,675	5,452,592
Effect of effective interest on the liability component of convertible bonds (Note 29)	81,083	69,180
Effect of gain recognised on the compound derivative component of convertible bonds (Note 29)	(163,596)	(2,253)
Earnings for the purpose of diluted earnings per share	5,510,162	5,519,519

#### Weighted average number of shares

	2013 '000 shares	2012 '000 shares
Number of ordinary shares for the purpose of basic earnings per share	5,885,000	5,885,000
Effect of conversion of convertible bonds	178,826	122,829
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,063,826	6,007,829

### 14. DIVIDENDS

Dividends declared for distribution during the year:

	2013 RMB'000	2012 RMB'000
2012 final dividends – HK\$26 cents per share	1,217,944	–
2011 final dividends – HK\$32 cents per share	–	1,536,371
	1,217,944	1,536,371

Subsequent to the end of the reporting period a final dividend of HK\$1,588,950,000 (equivalent to approximately RMB1,249,232,000) at HK\$27 cents per share in respect of the year ended 31 December 2013, based on 5,885,000,000 shares as at 31 December 2013, has been proposed by the directors of the Company and is subject to the approval by the shareholders in the forthcoming annual general meeting.

During the current year, the final dividend of HK\$1,530,100,000 (equivalent to approximately RMB1,217,944,000), at HK\$26 cents per share in respect of the year ended 31 December 2012, based on 5,885,000,000 shares as at 31 December 2012 (2012: HK\$1,883,200,000 (equivalent to approximately RMB1,536,371,000), at HK\$32 cents per share in respect of the year ended 31 December 2011) was declared to the owners of the Company.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2012	4,204,597	10,613,746	30,914	3,521	3,892,339	18,745,117
Additions	28,389	324,522	540	1,381	11,272,154	11,626,986
Acquired on acquisition of a subsidiary (Note 33)	–	–	–	141	–	141
Transfers	4,521,460	4,740,427	1,648	1,035	(9,264,570)	–
Disposals	(247)	–	–	–	–	(247)
At 31 December 2012	8,754,199	15,678,695	33,102	6,078	5,899,923	30,371,997
Additions	23,293	559,907	4,804	4,409	14,768,533	15,360,946
Transfers	3,367,319	8,220,073	–	–	(11,587,392)	–
Disposals	–	(247,836)	–	–	–	(247,836)
At 31 December 2013	<b>12,144,811</b>	<b>24,210,839</b>	<b>37,906</b>	<b>10,487</b>	<b>9,081,064</b>	<b>45,485,107</b>
<b>DEPRECIATION</b>						
At 1 January 2012	605,785	1,706,753	6,571	1,550	–	2,320,659
Provided for the year	257,168	1,079,180	2,919	779	–	1,340,046
Disposals	(7)	–	–	–	–	(7)
At 31 December 2012	862,946	2,785,933	9,490	2,329	–	3,660,698
Provided for the year	405,111	1,653,638	3,244	1,199	–	2,063,192
Disposals	–	(235,444)	–	–	–	(235,444)
At 31 December 2013	<b>1,268,057</b>	<b>4,204,127</b>	<b>12,734</b>	<b>3,528</b>	<b>–</b>	<b>5,488,446</b>
<b>CARRYING AMOUNT</b>						
At 31 December 2013	<b>10,876,754</b>	<b>20,006,712</b>	<b>25,172</b>	<b>6,959</b>	<b>9,081,064</b>	<b>39,996,661</b>
At 31 December 2012	7,891,253	12,892,762	23,612	3,749	5,899,923	26,711,299

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, taking into account their residual values, at the following rates per annum:

Buildings	3.17%-9.50%
Plant and machinery	6.79%-13.57%
Motor vehicles	9.50%-9.60%
Furniture, fixtures and equipment	9.50%-19.20%

Properties with carrying amount of RMB3,472,317,000 (2012: RMB1,784,100,000) located in the PRC which the Group is in the process of obtaining the property certificates.

The Group has pledged certain property, plant and equipment as disclosed in Note 34.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 16. PREPAID LEASE PAYMENTS

Movements in the prepaid lease prepayments, which represent land use rights in the PRC, during the year are analysed as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	1,066,798	956,854
Additions	119,966	131,865
Released	(22,625)	(21,921)
At 31 December	1,164,139	1,066,798
Prepaid lease payments related to land use rights analysed for reporting purposes as:		
Current assets	25,160	22,394
Non-current assets	1,138,979	1,044,404

The amount represents the prepayment of rentals for land use rights in the PRC for a period of 20 to 50 years. The Group has pledged land use right as disclosed in Note 34.

### 17. DEFERRED TAX ASSETS/LIABILITIES

The deferred tax assets (liabilities) recognised by the Group and the movements thereon during the year are as follows:

	Fair value changes of held-for-trading financial liabilities RMB'000	Excess of accounting depreciation over tax depreciation RMB'000	Undistributed profits of subsidiary RMB'000	Unrealised profit on intra-group sales RMB'000	Total RMB'000
At 1 January 2012	–	21,407	(81,090)	22,209	(37,474)
Credit to profit or loss	271	4,641	7,327	8,967	21,206
At 31 December 2012	271	26,048	(73,763)	31,176	(16,268)
Credit to profit or loss	674	4,641	33,763	71,354	110,432
At 31 December 2013	945	30,689	(40,000)	102,530	94,164

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 17. DEFERRED TAX ASSETS/LIABILITIES (Continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 RMB'000	2012 RMB'000
Deferred tax assets	134,164	57,495
Deferred tax liabilities	(40,000)	(73,763)
	<b>94,164</b>	<b>(16,268)</b>

At 31 December 2013, the Group had unused tax losses of approximately RMB175,488,000 (2012: RMB159,324,000) available to offset against future profits of respective subsidiaries. Included in unrecognised tax losses are losses of RMB157,286,000 (2012: RMB155,830,000) that may be carried forward indefinitely.

The other tax losses unrecognised for deferred tax assets that will expire in	2013 RMB'000	2012 RMB'000
2017	–	3,494
2018	18,202	–
	<b>18,202</b>	<b>3,494</b>

No deferred tax asset is recognised in relation to such tax losses due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. The management of the Group has reassessed the dividend policy of its PRC subsidiaries based on the Group's current business plan and financial position. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiary will be distributed to its foreign investor and as such, deferred tax liability in this respect was provided for accordingly in the consolidated financial statements of the Group to the extent that such earnings are estimated by the management of the Group to be distributed in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately RMB17,491,505,000 (2012: RMB13,678,329,000), 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 2013

### 18. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	7,445,999	1,428,187
Work in process	2,596,107	1,592,553
Finished goods	94,117	89,987
	<b>10,136,223</b>	<b>3,110,727</b>

### 19. TRADE RECEIVABLES

The Group has a policy of allowing 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 net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2013 RMB'000	2012 RMB'000
0-90 days	160,935	43,672

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

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Impairment for trade receivables over 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment and expected recoverable amounts. No impairment has been recognised during both years.

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 reporting date. Based on the historical experience of the Group, the directors of the Company believe that no further allowance is required.

The Group has pledged the trade receivables as disclosed in Note 34.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 20. BILLS RECEIVABLE

	2013 RMB'000	2012 RMB'000
Bills receivable	2,048,498	1,319,684

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

	2013 RMB'000	2012 RMB'000
0-90 days	1,036,277	485,299
91-180 days	1,012,221	834,385
	<b>2,048,498</b>	<b>1,319,684</b>

#### **TRANSFER OF FINANCIAL ASSETS**

The following were the Group's financial assets as at 31 December 2013 that were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards 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. These financial assets and financial liabilities are carried at amortised cost in the consolidated statement of financial position.

	2013 RMB'000	2012 RMB'000
Bills receivable endorsed to supplier with full recourse		
Carrying amount of transferred assets	1,471,405	1,255,215
Carrying amount of associated liabilities	(1,471,405)	(1,255,215)
Net position as at 31 December	-	-

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 21. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	2013 RMB'000	2012 RMB'000
Prepayments to suppliers	127,033	121,563
Value added tax receivables	1,317,653	188,035
Other receivables	20,482	4,944
	<b>1,465,168</b>	<b>314,542</b>

### 22. RESTRICTED BANK DEPOSITS AND BANK BALANCES

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

The restricted bank deposits carry market interest rate of 0.35% to 3.3% per annum as at 31 December 2013 (2012: 0.35% to 3.5%).

Bank balances and cash at 31 December 2013 were mainly denominated in RMB which is not a freely convertible currency in the international market.

### 23. TRADE PAYABLES

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

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

	2013 RMB'000	2012 RMB'000
0-180 days	1,956,151	1,091,334
181-365 days	33,049	5,389
1-2 years	5,721	822
Over 2 years	728	199
	<b>1,995,649</b>	<b>1,097,744</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 24. OTHER PAYABLES

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

	2013 RMB'000	2012 RMB'000
Payables on property, plant and equipment	3,527,147	2,400,173
Retention payables	1,244,331	897,081
Other payables and accruals	217,958	46,200
Advance from customers	270,795	486,842
Accrued payroll and welfare	52,283	15,638
Other tax payables	31,510	25,307
	<b>5,344,024</b>	<b>3,871,241</b>

### 25. BANK AND OTHER BORROWINGS

#### (a) Bank borrowings

	2013 RMB'000	2012 RMB'000
Secured bank borrowings	831,058	17,000
Unsecured bank borrowings (Note i)	14,836,147	11,188,468
Secured syndicated loans	3,553,628	2,897,424
	<b>19,220,833</b>	<b>14,102,892</b>
The total bank borrowings are repayable as follows (Note ii):		
Within one year	9,565,774	6,659,235
In the second year	4,387,532	2,495,347
In the third year	4,367,527	3,748,310
In the fourth year	900,000	300,000
In the fifth year	–	900,000
	<b>19,220,833</b>	<b>14,102,892</b>
Less: Amount due for settlement within one year and shown under current liabilities	<b>9,565,774</b>	<b>6,659,235</b>
Amount due after one year	<b>9,655,059</b>	<b>7,443,657</b>
Total bank borrowings		
– at fixed rates	5,111,325	5,714,365
– at floating rates	14,109,508	8,388,527
	<b>19,220,833</b>	<b>14,102,892</b>
Analysis of bank borrowings by currency:		
– denominated in RMB	7,874,500	7,629,500
– denominated in United States Dollar (“US\$”)	10,515,398	6,153,571
– denominated in Hong Kong Dollar (“HK\$”)	830,935	319,821
	<b>19,220,833</b>	<b>14,102,892</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 25. BANK AND OTHER BORROWINGS (Continued)

#### (a) Bank borrowings (Continued)

Notes:

- i: The balance of bank borrowings which are guaranteed by a related party was included in unsecured bank borrowings.
- ii: The amounts due are based on scheduled repayment dates set out in the loan agreements. As at 31 December 2013 and 2012, no bank borrowings have contained a repayment on demand clause.

Fixed interest rate borrowings are charged at the prevailing market rates ranging from 1.2% to 8.11% (2012: 2.0% to 8.11%) per annum as at 31 December 2013.

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

The effective weighted average interest rate for the year ended 31 December 2013 was 4.99% (2012: 6.64%) per annum.

#### (b) Other borrowings

As of 31 December 2013, the Company's subsidiary, Shandong Weiqiao Alumina & Power Ltd. ("Alumina & Power") pledged certain equipment to secure other borrowings amounting to RMB390,000,000, and repaid the other borrowings amounting to RMB60,000,000. The secured other borrowings was lent by RBS Leasing (China) Co., Ltd, an independent third party, for three years tenor with repayment in 12 installments and interest bearing at 6.27% per annum. Alumina & Power has the right to purchase the pledged certain equipment after 3 years from RBS Leasing (China) Co., Ltd with nominal consideration of RMB1.

### 26. SHORT-TERM DEBENTURES

	2013 RMB'000	2012 RMB'000
Short-term debentures	4,000,000	–

The Company's subsidiary, Alumina & Power applied to National Association of Financial Market Institutional Investors ("NAFMII") for issuing short-term debentures of RMB2,000,000,000 to independent third party debenture holders.

On 8 April 2013, Alumina & Power issued the first tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 8 April 2014. The debentures bear fixed interest at 4.53% per annum. Interest is payable annually in arrears.

**26. SHORT-TERM DEBENTURES (Continued)**

On 27 April 2013, Alumina & Power issued the second tranche of the short-term debentures, of a principal amount of RMB1,000,000,000 with a maturity date of 27 April 2014. The debentures bear fixed interest at 5.00% per annum. Interest is payable annually in arrears.

The Company's subsidiary, Shandong Hongqiao New Material Co., Ltd. ("Shandong Hongqiao") applied to NAFMII for issuing short-term debentures of RMB2,000,000,000 to independent third party debenture holders.

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

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

**27. HELD-FOR-TRADING FINANCIAL LIABILITIES**

	2013 RMB'000	2012 RMB'000
Derivative financial instruments-interest rate swaps (Note i)	871	1,084
Derivative financial instruments-Foreign currency forward contracts (Note ii)	4,407	-
	<b>5,278</b>	1,084

Note i: The Group entered into two interest rate swap contracts. Major terms of the contracts as at the end of the reporting period are as follows:

Notional amount	Maturity	Swaps
US\$200,000,000	17 August 2015	From LIBOR plus 3.3% to fixed rate of 3.65%
US\$50,000,000	17 August 2015	From LIBOR plus 3.3% to fixed rate of 3.644%

Note ii: The Group entered into arrangements with a commercial bank in the PRC that the Group was entitled to sell US dollar to the bank in future at predetermined exchange rates. All the contracts are in gross settlement and lasting for 12 months. Major terms of the contracts as at the end of the reporting period are as follows:

Aggregate principal amount	Maturity	Forward exchange rate
US\$18,661,000	From 6 February 2014 to 1 April 2014	sell US\$/buy RMB at 6.23 to 6.34

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 28. MEDIUM-TERM DEBENTURES

	2013 RMB'000	2012 RMB'000
Medium-term debentures	6,189,548	1,486,640

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

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

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

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

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

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

### 29. CONVERTIBLE BONDS

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

The principal terms of the Convertible Bonds are as follows:

#### (a) Option conversion

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

## 29. CONVERTIBLE BONDS (Continued)

### (a) Option conversion (Continued)

As disclosed in Note 14, a final dividend of HK\$32 cents per share for the year ended 31 December 2011 was approved in the annual general meeting in May 2012. Pursuant to the Convertible Bonds agreement, the Conversion Price per share was adjusted from HK\$7.27 to HK\$6.81 effective from 24 May 2012.

As disclosed in Note 14, a final dividend of HK\$26 cents per share for the year ended 31 December 2012 was approved in the annual general meeting in May 2013. Pursuant to the Convertible Bonds agreement, the Conversion Price per share was adjusted from HK\$6.81 to HK\$6.33 effective from 27 May 2013.

### (b) Redemption

#### – *Redemption at maturity*

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

#### – *Redemption at the option of the Company*

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

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

#### – *Redemption at the option of the Bondholders*

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 29. CONVERTIBLE BONDS (Continued)

#### (b) Redemption (Continued)

The Convertible Bonds comprised of two components:

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

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

The compound derivative component was valued at fair value by the directors with reference to valuation carried out by an independent valuation firm, Grant Sherman Appraisal Limited. The fair value of the compound derivative component is derived by removing the liability component from the fair value of Convertible Bonds which is calculated using Binominal Option Pricing Model. The major inputs used in the models as at 31 December 2013 and 2012 were as follows:

	At 31 December 2013	At 31 December 2012
Stock price	<b>HK\$ 5.34</b>	HK\$ 4.07
Exercise price	<b>HK\$ 6.33</b>	HK\$ 6.81
Risk-free rate	<b>0.780%</b>	0.281%
Expected life	<b>3.28 years</b>	4.28 years
Volatility	<b>40.27%</b>	42.72%

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 29. CONVERTIBLE BONDS (Continued)

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

	Liability component RMB'000	Compound derivative component RMB'000	Total RMB'000
Convertible bonds issued on 10 April 2012	712,122	233,403	945,525
Transaction costs	(20,911)	–	(20,911)
Interest charged during the period			
from 10 April 2012 to 31 December 2012 (Note 8)	69,180	–	69,180
Interest paid during the period			
from 10 April 2012 to 31 December 2012	(30,980)	–	(30,980)
Changes in fair value during the period			
from 10 April 2012 to 31 December 2012 (Note 32f)	–	(2,253)	(2,253)
As at 31 December 2012	729,411	231,150	960,561
Interest charged during the year (Note 8)	<b>81,083</b>	–	<b>81,083</b>
Interest paid during the year	<b>(60,493)</b>	–	<b>(60,493)</b>
Changes in fair value during the year (Note 32f)	–	<b>(163,596)</b>	<b>(163,596)</b>
As at 31 December 2013	<b>750,001</b>	<b>67,554</b>	<b>817,555</b>

No conversion or redemption of the Convertible Bonds has occurred up to 31 December 2013.

### 30. SHARE CAPITAL

The details of the Company's share capital are as follows:

	Number of shares	Shares capital US\$
Authorised		
Ordinary shares of US\$0.01 each		
At 31 December 2012 and 2013	<b>10,000,000,000</b>	<b>100,000,000</b>
Issued and fully paid		
Ordinary shares of US\$0.01 each		
At 31 December 2012 and 2013	<b>5,885,000,000</b>	<b>58,850,000</b>
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Shown on the consolidated statement of financial position	<b>386,206</b>	386,206

The shares issued ranking pari passu with other shares in issue in all respects.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 31. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year 31 December 2013.

The capital structure of the Group consists of net debt, which comprising the bank borrowings, other borrowings, short-term debentures, medium-term debentures and convertible bonds disclosed in Notes 25, 26, 28, and 29, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 30 and share premium and reserves in the consolidated statements of financial position.

The 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.

### 32. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
<b>Financial assets</b>		
Loans and receivables	10,262,561	11,415,331
<b>Financial liabilities</b>		
Liabilities at amortised cost	37,527,749	20,975,779
Convertible bonds-derivative component	67,554	231,150
Held-for-trading financial liabilities	5,278	1,084
	<b>37,600,581</b>	<b>21,208,013</b>

#### (b) Market risk

The Group's activities expose it primarily to the foreign currency risk and financial risks of interest rates.

The Group's overall market risk management objectives and policies remain unchanged from prior year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS (Continued)

#### (b) Market risk (Continued)

##### *Foreign currency risk management*

Several subsidiaries of the Company have foreign currency purchases, financing arrangements and capital expenditure which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	2013 RMB'000	2012 RMB'000
<b>Assets</b>		
US\$		
Bank balances and cash	<b>608,832</b>	455,674
HK\$		
Bank balances and cash	<b>7,231</b>	15,328
Indonesia Rupiah ("IDR")		
Bank balances and cash	<b>4,174</b>	–
Other receivable	<b>4,134</b>	–
	<b>8,308</b>	–
<b>Liabilities</b>		
US\$		
Bank borrowings	<b>10,515,398</b>	6,153,571
Convertible bonds – liability component	<b>750,001</b>	729,411
Trade payables	<b>406,756</b>	248,840
Held-for-trading financial liabilities	<b>5,278</b>	1,084
	<b>11,677,433</b>	7,132,906
HK\$		
Bank borrowings	<b>830,935</b>	319,821
IDR		
Other payable	<b>1,018</b>	–

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS (Continued)

#### (b) Market risk (Continued)

##### *Foreign currency risk management (Continued)*

##### *Sensitivity analysis*

The following table details the Group's sensitivity to a reasonably possible change of 5% (2012: 5%) strengthening of RMB against the foreign currencies listed above. 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 rate. 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.

	2013 RMB'000	2012 RMB'000
(Decrease) increase in profit for the year		
if RMB weakens against		
US\$	(453,368)	(250,396)
HK\$	(33,712)	(11,418)
IDR	274	–
if RMB strengthens against		
US\$	453,368	250,396
HK\$	33,712	11,418
IDR	(274)	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

##### *Interest rate risk management*

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings, medium-term debentures and convertible bonds. The cash flow interest rate risk of the Group relates primarily to the restricted bank deposits, bank balances and floating interest rate bank borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swap contracts to hedge against its exposures to changes in fair values of certain fixed-rate bank borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**32. FINANCIAL INSTRUMENTS (Continued)****(b) Market risk (Continued)*****Interest rate risk management (Continued)****Sensitivity analysis*

The sensitivity analysis below have 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 27 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 27 basis points higher/lower and all other variables were held constant:

	2013 RMB'000	2012 RMB'000
Increase (decrease) in profit for the year:		
As a result of increase in interest rate	16,582	1,027
As a result of decrease in interest rate	(16,582)	(1,027)

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.

**(c) Credit risk**

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no concentration of credit risk in respect of trade receivables.



## 32. FINANCIAL INSTRUMENTS (Continued)

### (c) Credit risk (Continued)

The Group has concentration of credit risk in respect of bank's acceptance bills receivable as the Group's bills receivable from the Group's top bank amounted to RMB355,241,000 (2012: RMB315,869,000), and represented 17% (2012: 24%) of the total bills receivable as at 31 December 2013. In addition, the Group's top five major banks amounted to RMB1,430,640,000 (2012: RMB796,839,000) and represented 70% (2012: 60%) of the total bills receivable respectively as at 31 December 2013. The credit risk on bills receivable is limited because most of the Group's bills receivable are bank acceptances bills under various banks of good credit ratings.

The credit risk on bank balances and deposits is limited because such amounts are placed with various banks with good credit ratings. Other than disclosed above, the Group does not have any other significant concentration of credit risk.

### (d) 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 convertible bonds, bank borrowings, short-term debentures and medium-term debentures. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate outstanding at the end of each reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS (Continued)

#### (d) Liquidity risk management (Continued)

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6-12 months RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2013</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	5.46	1,246,567	966,015	1,434,862	1,886,066	5,533,510	5,111,325
Floating-rate bank borrowings	4.37	4,109,537	3,914,771	3,305,653	3,568,740	14,898,701	14,109,508
Other borrowings	7.10	55,916	59,230	171,005	77,663	363,814	330,000
Short-term debentures	5.68	2,089,181	2,021,478	–	–	4,110,659	4,000,000
Medium-term debentures	6.25	187,500	187,500	1,868,579	5,126,969	7,370,548	6,189,548
Trade payables	–	1,995,649	–	–	–	1,995,649	1,995,649
Other payables	–	4,613,725	427,993	–	–	5,041,718	5,041,718
Convertible bonds	6.50	29,722	29,722	59,444	931,047	1,049,935	750,001
		14,327,797	7,606,709	6,839,543	11,590,485	40,364,534	37,527,749
<b>Derivatives financial liabilities – net settlement</b>							
Held-for-trading financial liabilities							
– Interest rate swaps		714	255	(88)	–	881	871
<b>Derivatives financial liabilities – gross settlement</b>							
Held-for-trading financial liabilities							
– Foreign currency forward contracts							
– inflow		118,190	–	–	–	118,190	117,981
– outflow		(113,775)	–	–	–	(113,775)	(113,574)
		4,415	–	–	–	4,415	4,407
<b>At 31 December 2012</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	6.11	1,693,318	1,872,332	534,359	2,103,822	6,203,831	5,714,365
Floating-rate bank borrowings	7.19	344,834	3,656,802	2,447,584	3,168,191	9,617,411	8,388,527
Medium-term debentures	5.80	43,500	43,500	87,000	1,581,041	1,755,041	1,486,640
Trade payables	–	1,097,744	–	–	–	1,097,744	1,097,744
Bills payable	–	200,000	–	–	–	200,000	200,000
Other payables	–	3,094,986	264,106	–	–	3,359,092	3,359,092
Convertible bonds	6.50	30,642	30,642	61,284	959,848	1,082,416	729,411
		6,505,024	5,867,382	3,130,227	7,812,902	23,315,535	20,975,779
<b>Derivatives financial liabilities – net settlement</b>							
Held-for-trading financial liabilities							
– Interest rate swaps		940	482	(28)	(286)	1,108	1,084



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS (Continued)

#### (d) Liquidity risk management (Continued)

The amounts included above for floating interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

#### (e) Fair value measurements of financial instruments

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

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	At 31 December 2013	At 31 December 2012			
1) Foreign currency forward contracts classified as held-for-trading financial liabilities	Liabilities- RMB4,407,000	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
2) Interest rate swaps classified as held-for-trading financial liabilities	Liabilities- RMB871,000	Liabilities- RMB1,084,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
3) Convertible bonds-derivative component classified as financial liabilities at FVTPL	Liabilities- RMB67,554,000	Liabilities- RMB231,150,000	Level 3	The fair value of the compound derivative component is derived by removing the liability component from the fair value of Convertible Bonds which is calculated using Binomial Option Pricing Model.	Volatilities were determined based on the historical price volatilities of the Company and three comparable companies under the same periods as the expected life. (Note)

## 32. FINANCIAL INSTRUMENTS (Continued)

## (e) Fair value measurements of financial instruments (Continued)

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

Note: An increase in the volatilities would result in an increase in the fair value measurement of the convertible bonds-derivative component, and vice versa. A 10% increase in the volatilities holding all other variables constant would increase the carrying amount of the convertible bonds-derivative component by RMB15,029,000. A 10% decrease in the volatilities holding all other variables constant would decrease the carrying amount of the convertible bonds-derivative component by RMB17,669,000.

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

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

	31 December 2013		31 December 2012	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds – liability component	750,001	946,049	729,411	713,135
Medium-term debentures	6,189,548	5,756,383	1,486,640	1,576,155

Note: The fair value hierarchy of the fair value of the Convertible bonds – liability component and medium-term debentures are included in the level 2. The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS (Continued)

#### (f) Reconciliation of Level 3 fair value measurements

	Convertible bonds derivative component RMB'000
At 1 January 2012	–
Issues	233,403
Changes in fair value during the year (Note29)	(2,253)
At 31 December 2012	231,150
Changes in fair value during the year (Note29)	(163,596)
At 31 December 2013	67,554

Changes in fair value during the period amounting to RMB163,596,000 (2012: RMB2,253,000) relates to derivative component of Convertible bonds issued by the Group and remained outstanding at the end of the reporting period.

### 33. ACQUISITION OF A SUBSIDIARY

On 27 December 2012, the Company entered into a capital injection agreement to invest RMB36,963,000 in PT. Well Harvest Winning Alumina Refinery (宏發韋立氧化鋁公司) ("Well Harvest") and obtained 60% equity interests in Well Harvest.

As at the date of acquisition, Well Harvest has not yet commenced operation and its production facility was still under construction. As it did not constitute a business under IFRS 3 Business Combinations and the acquisition was in substance an acquisition of the assets of Well Harvest, the above transaction was accounted for as acquisition of assets and liabilities.

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

	RMB'000
Non-current assets	
Property, plant and equipment	141
Current assets	
Other receivables	874
Cash and cash equivalents	61,747
Current liabilities	
Other payables, deposits received and accruals	(1,157)
Non-controlling interests (40% in Well Harvest)	(24,642)
	36,963

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

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

Net cash outflow arising on acquisition:

	RMB'000
Cash consideration paid	36,963
Less: cash and cash equivalents acquired	(61,747)
	<u>(24,784)</u>

### 34. 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:

	2013 RMB'000	2012 RMB'000
Restricted bank deposits	1,670,576	872,088
Bills receivable	304,474	–
Land use rights	31,319	32,016
Property, plant and equipment	379,496	–
	<u>2,385,865</u>	<u>904,104</u>

In addition, the Company pledged its shares in China Hongqiao Investment Limited, Hongqiao Investment (Hong Kong) Limited, Hongqiao International Trading Limited and its trade receivables as collateral for a syndicated loan facility of US\$460,000,000 (equivalent to RMB2,917,090,000) and HK\$320,000,000 (equivalent to RMB261,625,600), all of which were drawn down as at 31 December 2012. During the current year, the Company raised a new syndicated loan facility of US\$330,000,000 (equivalent to RMB2,071,707,000) which is also covered by the above collateral, and was drawn down as at 31 December 2013.

### 35. OPERATING LEASES

The Group as lessee

	2013 RMB'000	2012 RMB'000
Minimum lease payments paid under operating leases for premises	3,669	3,447

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 35. OPERATING LEASES (Continued)

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:

	2013 RMB'000	2012 RMB'000
Within one year	3,178	3,669
In the second to fifth year inclusive	4,656	7,501
	<b>7,834</b>	11,170

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

### 36. COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided	3,346,679	4,572,760
– authorised but not contracted for	14,571,942	14,779,206
	<b>17,918,621</b>	19,351,966

### 37. RELATED PARTY TRANSACTIONS

#### (a) Name and relationship with related parties

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

Notes:

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 37. RELATED PARTY TRANSACTIONS (Continued)

- (b) The Group has entered into the following significant transactions with its related party during the two years ended 31 December 2013:

	2013 RMB'000	2012 RMB'000
Purchases of carbon anode blocks – Aluminum Technology	305,489	262,367
Sales of slag of carbon anode blocks – Aluminum Technology	31,445	24,875

- (c) Compensation of key management personnel

	2013 RMB'000	2012 RMB'000
Short term employee benefit	5,652	5,775
Retirement benefits scheme contributions	37	33
	5,689	5,808

- (d) Guarantees and security

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

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
Chuangye Group	488,800	–

- (e) Balances with related parties

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
Trade payable Aluminum Technology	6,871	–

### 38. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group has participated in certain defined contribution retirement schemes managed by the respective municipal governments where the Group operates, covering all permanent staff of the Group. The Group has no obligation beyond the contributions which are calculated based on 18% to 19% of permanent staff basic salaries during both years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 39. PARTICULARS OF SUBSIDIARIES

The particulars of subsidiaries of the Company as at 31 December 2013 and 2012 are set out as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at		Principal activity
			31 December 2013 %	31 December 2012 %	
Hongqiao Investment	BVI 5 February 2010	US\$200	100	100	Investment holding
Well Harvest	Jakarta, Indonesia 20 March 2012	IDR 94,000,000,000	60	60	Manufacture and sales of alumina
Hongqiao Hong Kong	Hong Kong 18 February 2010	HK\$10,100	100	100	Investment holding
Hongqiao International Trading Limited 宏橋國際貿易有限公司	Hong Kong 11 April 2012	HK\$10,000,000	100	100	Trading of bauxite
山東宏橋新型材料有限公司 Shandong Hongqiao (note i)	PRC 27 July 1994	US\$ 1,303,120,000	100	100	Manufacture and sales of aluminum products
山東魏橋鋁電有限公司 Alumina & Power (note i)	PRC 25 December 2002	RMB13,000,000,000	100	100	Manufacture and sales of aluminum products
濱州市政通新型鋁材有限公司 Zhengtong (note i)	PRC 20 May 2008	RMB6,200,000,000	100	100	Manufacture and sales of aluminum products
惠民縣匯宏新材料有限公司 Huimin Huihong New Aluminum (note i)	PRC 6 December 2011	RMB5,000,000,000	100	100	Manufacture and sales of aluminum products
沾化縣匯宏新材料有限公司 Zhanhua Country New Aluminum Profiles Co., Ltd. (note i and ii)	PRC 8 August 2013	RMB200,000,000	100	–	Manufacture and sales of aluminum products
陽信縣匯宏新材料有限公司 Yangxin Country New Aluminum Profiles Co., Ltd. (note i and ii)	PRC 9 August 2013	RMB200,000,000	100	–	Manufacture and sales of aluminum products
濱州北海匯宏新材料有限公司 Binzhou Beihai New Aluminum Profiles Co., Ltd. (note i and ii)	PRC 2 September 2013	RMB200,000,000	100	–	Manufacture and sales of aluminum products

Notes:

(i) The English names of these companies are for reference only and have not been registered.

(ii) Newly established during the year ended 31 December 2013.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2013 RMB'000	2012 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	426	479
Investment in subsidiaries	7,316,124	5,744,446
Amounts due from subsidiaries	5,424,043	5,295,604
	<b>12,740,593</b>	11,040,529
<b>CURRENT ASSETS</b>		
Amount due from a subsidiary	–	35,432
Prepayment and other receivables	1,001	–
Bank balances and cash	27,506	383,132
	<b>28,507</b>	418,564
<b>CURRENT LIABILITIES</b>		
Other payables	4,690	4,597
	<b>4,690</b>	4,597
<b>NET CURRENT ASSETS</b>	<b>23,817</b>	413,967
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>12,764,410</b>	11,454,496
<b>CAPITAL AND RESERVES</b>		
Share capital (Note 30)	386,206	386,206
Share premium and reserves	9,444,810	8,663,316
<b>TOTAL EQUITY</b>	<b>9,831,016</b>	9,049,522
<b>NON-CURRENT LIABILITIES</b>		
Amount due to a subsidiary	2,115,839	1,444,413
Convertible bonds – Liability component	750,001	729,411
Convertible bonds – Derivative component	67,554	231,150
	<b>12,764,410</b>	11,454,496



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

### 40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

#### Movement in reserve

	Share capital RMB'000	Share premium RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2012	386,206	8,026,800	(36,128)	8,376,878
Profit and total comprehensive income for the year	–	–	2,209,015	2,209,015
Dividend recognised as distribution	–	–	(1,536,371)	(1,536,371)
At 31 December 2012	386,206	8,026,800	636,516	9,049,522
Profit and total comprehensive income for the year	–	–	1,999,438	1,999,438
Dividend recognised as distribution	–	–	(1,217,944)	(1,217,944)
At 31 December 2013	386,206	8,026,800	1,418,010	9,831,016

### 41. EVENTS AFTER THE REPORTING PERIOD

The Company's subsidiary, Shandong Hongqiao received the "Approval for the Issue of 2013 Corporate Bonds by Shandong Hongqiao New Material Co., Ltd." from National Development and Reform Commission approving Shandong Hongqiao to issue the Corporate Bonds of no more than RMB2,300,000,000 in PRC. On 3 March 2014, Shandong Hongqiao issued the first tranche of the Corporate Bonds, of a principal amount of RMB1,200,000,000 with a maturity date of 2 March 2021. The debentures bear fixed interest at 8.69% per annum. Interest is payable annually in arrears.



# Independent Auditor's Report

**Deloitte.**  
德勤

TO THE MEMBERS OF CHINA HONGQIAO GROUP LIMITED  
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Hongqiao Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 92, which comprise the consolidated statement of financial position of the Group as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

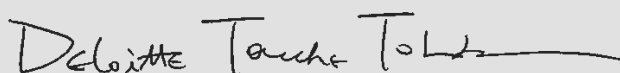
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Independent Auditor's Report (Continued)

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

8 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	5	<b>24,804,742</b>	23,626,031
Cost of sales		<b>(16,801,294)</b>	(15,449,645)
Gross profit		<b>8,003,448</b>	8,176,386
Other income and gain and loss	6	<b>422,439</b>	311,960
Distribution and selling expenses		<b>(58,667)</b>	(44,054)
Administrative expenses		<b>(306,068)</b>	(167,033)
Finance costs	7	<b>(642,731)</b>	(300,819)
Other expenses		<b>(20,121)</b>	(22,569)
Changes in fair value of compound derivative	28	<b>2,253</b>	–
Profit before taxation	8	<b>7,400,553</b>	7,953,871
Income tax expense	11	<b>(1,947,961)</b>	(2,078,461)
Profit and total comprehensive income for the year		<b>5,452,592</b>	5,875,410
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		<b>5,452,592</b>	5,875,410
Non-controlling interests		–	–
		<b>5,452,592</b>	5,875,410
Earnings per share	12		
Basic (RMB)		<b>0.93</b>	1.03
Diluted (RMB)		<b>0.92</b>	N/A

# Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	26,711,299	16,424,458
Prepaid lease payments – non-current portion	15	1,044,404	937,128
Deferred tax assets	16	57,495	43,616
Deposits paid for acquisition of property, plant and equipment		1,705,469	1,400,011
		<b>29,518,667</b>	<b>18,805,213</b>
<b>Current assets</b>			
Prepaid lease payments-current portion	15	22,394	19,726
Inventories	17	3,110,727	1,908,646
Trade receivables	18	43,672	1,438
Bills receivable	19	1,319,684	1,312,960
Prepayments and other receivables	20	314,542	121,802
Restricted bank deposits	21	872,088	14,468
Bank balances and cash	21	9,174,943	7,484,795
		<b>14,858,050</b>	<b>10,863,835</b>
<b>Current liabilities</b>			
Trade payables	22	1,097,744	1,216,259
Bills payable	23	200,000	–
Other payables	24	3,871,241	2,644,583
Income tax payable		244,895	137,879
Bank borrowings – due within one year	25	6,659,235	3,210,610
Held-for-trading financial liabilities	27	1,084	–
		<b>12,074,199</b>	<b>7,209,331</b>
<b>Net Current Assets</b>		<b>2,783,851</b>	<b>3,654,504</b>
<b>Total Assets less Current Liabilities</b>		<b>32,302,518</b>	<b>22,459,717</b>
<b>Capital and Reserves</b>			
Share capital	29	386,206	386,206
Share premium and reserves		21,927,049	18,010,828
<b>Equity attributable to owners of the Company</b>		<b>22,313,255</b>	<b>18,397,034</b>
Non-controlling interests		24,642	–
<b>Total Equity</b>		<b>22,337,897</b>	<b>18,397,034</b>
<b>Non-current Liabilities</b>			
Bank borrowings – due after one year	25	7,443,657	3,981,593
Medium-term debentures	26	1,486,640	–
Deferred tax liabilities	16	73,763	81,090
Convertible bonds – Liability component	28	729,411	–
Convertible bonds – Derivative component	28	231,150	–
		<b>9,964,621</b>	<b>4,062,683</b>
		<b>32,302,518</b>	<b>22,459,717</b>

The consolidated financial statements on pages 41 to 92 were approved and authorised for issue by the Board of Directors on 8 March 2013 and are signed on its behalf by:

**Zhang Bo**  
Executive Director

**Qi Xingli**  
Executive Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company							Total
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Retained earnings	Subtotal	Non-controlling interests	
	RMB'000	RMB'000	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	69	–	793,349	1,028,660	5,480,463	7,302,541	–	7,302,541
Profit and total comprehensive income for the year	–	–	–	–	5,875,410	5,875,410	–	5,875,410
Capitalisation of share premium (Note 29(a))	328,059	(328,059)	–	–	–	–	–	–
Issue of shares	58,078	5,306,954	–	–	–	5,365,032	–	5,365,032
Transaction costs attributable to issue of shares	–	(145,949)	–	–	–	(145,949)	–	(145,949)
Transfer to reserves	–	–	–	820,824	(820,824)	–	–	–
At 31 December 2011	386,206	4,832,946	793,349	1,849,484	10,535,049	18,397,034	–	18,397,034
Profit and total comprehensive income for the year	–	–	–	–	5,452,592	5,452,592	–	5,452,592
Dividend recognised as distribution (Note 13)	–	–	–	–	(1,536,371)	(1,536,371)	–	(1,536,371)
Acquisition of a subsidiary (Note 32)	–	–	–	–	–	–	24,642	24,642
Transfer to reserves	–	–	–	561,307	(561,307)	–	–	–
At 31 December 2012	386,206	4,832,946	793,349	2,410,791	13,889,963	22,313,255	24,642	22,337,897

Notes:

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	7,400,553	7,953,871
Adjustments for:		
Interest income	(28,555)	(11,156)
Finance costs	642,731	300,819
Depreciation of property, plant and equipment	1,340,046	840,736
Loss on disposal of property, plant and equipment	240	–
Loss from changes in fair value of financial liabilities at fair value through profit or loss	1,084	–
Gain on fair value changes of compound derivative	(2,253)	–
Release of prepaid lease payments	21,921	7,611
Operating cash flows before movements in working capital	9,375,767	9,091,881
Increase in inventories	(1,202,081)	(786,546)
Increase in receivables, deposits and prepayments	(240,824)	(393,173)
Increase (decrease) in payables, deposits received and accrued charges	150,060	(261,232)
Cash generated from operations	8,082,922	7,650,930
Income tax paid	(1,862,151)	(2,020,851)
Net cash generated from operating activities	6,220,771	5,630,079
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and deposits for acquisition of property, plant and equipment	(10,708,031)	(8,169,372)
Addition to prepaid lease payments	(131,865)	(808,321)
Acquisition of a subsidiary (Note 32)	24,784	–
Interest received	28,555	11,156
Placement of restricted bank deposits	(1,356,923)	(15,527)
Withdrawal of restricted bank deposits	499,303	83,709
Net cash used in investing activities	(11,644,177)	(8,898,355)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	–	5,365,032
Shares issue expenses paid	–	(145,949)
Dividends paid	(1,536,371)	–
Proceeds from issue of convertible bonds	945,525	–
Payment of transaction costs on issue of convertible bonds	(27,765)	–
New bank borrowings raised	15,298,385	4,614,895
Repayment of bank borrowings	(8,387,696)	(1,456,542)
New other borrowings raised	1,341,882	–
Repayment to other borrowings	(1,341,882)	–
Proceeds from issue of medium-term debentures raised	1,500,000	–
Payment of transaction costs on issue of medium-term debentures	(13,658)	–
Interest paid	(664,866)	(293,934)
Net cash generated from financing activities	7,113,554	8,083,502
Net increase in cash and cash equivalents	1,690,148	4,815,226
Cash and cash equivalents at beginning of the year	7,484,795	2,669,569
Cash and cash equivalents at end of the year, represented by bank balances and cash	9,174,943	7,484,795

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 24 March 2011. Its parent and ultimate holding company is China Hongqiao Holdings Limited, a company incorporated in the British Virgin Islands. The registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The principal activities of its subsidiaries are set out in Note 38.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for the first time, the following amendments to standards issued by the International Accounting Standards Board ("IASB") which have become effective.

Amendments to IAS 12  
Amendments to IFRS 7

Deferred Tax: Recovery of Underlying Asset  
Financial Instruments: Disclosures – Transfers of Financial Assets

Except as described below, the adoption of the amendments to standards in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### **Amendments to IFRS 7 Financial Instruments Disclosures-Transfers of Financial Assets**

The Group has applied for the first time the amendments to IFRS 7 *Financial Instruments Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various suppliers to transfer to the suppliers its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through endorsing those bills receivable to suppliers on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards 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 were included in the consolidated statement of financial position accordingly (see notes 22 and 24). The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to IFRS 7 (see note 19).



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### Amendments to IFRS 7 Financial Instruments Disclosures-Transfers of Financial Assets (Continued)

The Group has not early applied the following new and revised standards, amendments and interpretation (“new and revised IFRSs”) that have been issued but are not yet effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle <sup>1</sup>
Amendments to IFRS 1	Government Loans <sup>1</sup>
Amendments to IFRS 7	Disclosures-Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition and Disclosures <sup>3</sup>
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities <sup>2</sup>
IFRS 9	Financial Instruments <sup>3</sup>
IFRS 10	Consolidated Financial Statements <sup>1</sup>
IFRS 11	Joint Arrangements <sup>1</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
IFRS 13	Fair Value Measurement <sup>1</sup>
IAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
IAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income <sup>4</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

#### Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 9 “Financial Instruments”

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss (“FVTPL”) was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the Company anticipate the standard will be adopted in the Group’s consolidated financial statements for the year beginning on 1 January 2015. The application of IFRS 9 will not affect the classification and measurement of the Group’s financial assets or liabilities based on an analysis of the Group’s financial assets and liabilities as at 31 December 2012.

#### IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces part of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 10 is effective for annual periods beginning on 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of IFRS 10 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 2012

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards. Significant effort may be required to collect the necessary information.

IFRS 12 is effective for annual periods beginning on 1 January 2013. The directors of the Company anticipate that the application of IFRS 12 may result in more extensive disclosures in the consolidated financial statements.

#### IFRS 13 “Fair value measurement”

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 “Financial instruments: Disclosures” will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on 1 January 2013. The directors of the company anticipate that the application of IFRS 13 may result in more extensive disclosures in the consolidated financial statements.

Other than the above, the directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS and on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

#### **Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary 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.

#### **Acquisition of a subsidiary classified as an asset acquisition**

In respect of acquisition of a subsidiary which does not constitute a business, the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Revenue from steam supply is recognised when steam is provided.

Interest income from a financial asset 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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, 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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category 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.

#### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency, i.e. RMB).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

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

#### Retirement benefit costs

Payments to defined contribution retirement benefits scheme under the state-managed retirement benefit schemes in PRC are charged as an expense when employees have rendered service entitling them to the contributions.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. 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 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 base 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 arising on investments in subsidiaries, 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 each 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 each 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials other than coal and alumina is calculated using the first-in, first-out method while cost of coal, alumina and other inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and estimated costs necessary to make the sale.

#### Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets*

The Group's financial assets are mainly classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, 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, of which interest income is included in other income.

##### *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 receivable, other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on loans and receivables below).

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where 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.

Objective evidence of impairment for loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in local economic conditions that correlate with default on receivables.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

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

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

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 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 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

##### *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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

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

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- is a part of an identified portfolio of 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.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

##### *Other financial liabilities*

Other financial liabilities including bank borrowings, trade payables, bills payable, medium-term debentures, convertible bonds – liability component and other payables are subsequently measured at amortised cost, using the effective interest method.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Convertible bonds*

Convertible bonds issued by the Group that 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 the 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. At the date of issue, both the liability and the compound derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and compound derivative components in proportion to their relative fair values. Transaction costs relating to the compound derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

##### *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 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Derecognition*

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 entity. 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 is recognised in profit or loss.

The Group derecognises financial liabilities 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.

##### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, the resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Estimated impairment of inventories**

The Group's management assesses periodically whether the inventories have been suffered from any impairment based on estimate on the net realisable value of the inventory. For different types of inventories, it requires the exercise of accounting estimates on selling price, costs of conversion and selling expenses to calculate its net realisable value. It is reasonably possible that outcomes would be significantly affected if there is a significant change in circumstances, including the Group's business and the external environment. As at 31 December 2012, the carrying amount of inventories are approximately RMB3,110,727,000 (2011: RMB1,908,646,000) as disclosed in Note 17.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in Note 14. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

#### Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount. At the end of each reporting period, no property, plant and equipment was impaired based on the impairment assessment performed by management. It is possible that actual outcomes may be different from assumptions, having a material impact on the carrying amount of property, plant and equipment in the period when such estimate is revised.

At 31 December 2012, the directors of the Company are satisfied that there is no indication that property, plant and equipment has suffered an impairment loss. As at 31 December 2012, the carrying amount of property, plant and equipment are approximately RMB26,711,299,000 (2011:RMB16,424,458,000) as disclosed in Note 14.

#### Convertible bonds

As described in Note 28, the Company's convertible bonds contain a number of embedded derivatives that are remeasured to FVTPL at the end of each reporting period. The Company engaged an independent appraiser to assist the directors of the Company in determining the fair value of these embedded derivatives. The independent appraiser uses his judgement 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 valuation of derivative financial instruments, assumptions are made based on quoted market rates to the extent possible and adjusted for specific features of the instrument. As at 31 December 2012, the fair value of the embedded derivatives is approximately RMB231,150,000 as disclosed in Note 28. Any changes in the assumptions of the valuation model will have a material effect on the fair value of the embedded derivatives of the convertible bonds.

### 5. REVENUE AND SEGMENT INFORMATION

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

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

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

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

	2012 RMB'000	2011 RMB'000
Revenue from		
Sales of goods		
Aluminum products		
– molten aluminum alloy	17,161,788	16,972,433
– aluminum alloy ingots	6,768,728	5,845,640
– aluminum alloy casting-rolling plate	228,534	7,361
– aluminum busbars	107,062	102,955
Steam supply income	538,630	697,642
	<b>24,804,742</b>	23,626,031

All external revenues of the Group are contributable to customers established in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are mainly located in the PRC.

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Customer A	8,324,216	7,903,513
Customer B	3,032,614	3,763,358

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 6. OTHER INCOME AND GAIN AND LOSS

	2012 RMB'000	2011 RMB'000
Interest income	28,555	11,156
Net gain on sales of raw materials (Note)	85,756	46,538
Revenue from sales of slag of carbon anode blocks	278,010	257,861
Foreign exchange losses, net	(419)	(25,782)
Loss on disposal of property, plant and equipment	(240)	–
Loss from changes in fair value of financial liabilities at FVTPL	(1,084)	–
Others	31,861	22,187
	<b>422,439</b>	<b>311,960</b>

Note:

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

	2012 RMB'000	2011 RMB'000
Revenue from sales of raw materials	126,613	57,559
Expenses related to sales of raw materials	(40,857)	(11,021)
	<b>85,756</b>	<b>46,538</b>

### 7. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expenses on bank borrowings		
– wholly repayable within five years	566,400	330,281
Interest expenses on convertible bonds (Note 28)	69,180	–
Interest expenses on other borrowings (Note i)	19,264	–
Interest expenses on medium-term debentures	6,042	–
Transaction cost relating to compound derivative		
– component of convertible bonds (Note 28)	6,854	–
Arrangement fee of syndicated loan (Note ii)	63,705	–
Less: amounts capitalised under construction in progress	(88,714)	(29,462)
	<b>642,731</b>	<b>300,819</b>

Notes:

- i During the year, the Company had other borrowings amounting to approximately RMB1,341,822,000, which represented the loans of US\$152,000,000 (equivalent to RMB961,385,000) and HK\$466,680,000 (equivalent to RMB380,437,000). The loans were lent by three independent third parties for a term of two years and are unsecured and interest bearing.
- ii During the year, the Company early repaid the syndicated loan and the corresponding arrangement fee of approximately RMB63,705,000 was recognised as an expense.

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 6.28% (2011: 5.88%) per annum to expenditure on qualifying assets.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2012 RMB'000	2011 RMB'000
Staff cost:		
Directors' and chief executive's emoluments (Note 9)	5,379	5,340
Other staff costs:		
– Wages and salaries	1,010,620	536,089
– Retirement benefit schemes contributions	27,785	16,082
Total staff costs	1,043,784	557,511
Auditors' remuneration	3,900	3,500
Depreciation of property, plant and equipment	1,340,046	840,736
Cost of inventories recognised as an expense	16,744,399	15,362,093
Release of prepaid lease payments	21,921	7,611
Listing expenses	–	15,842

### 9. DIRECTORS' EMOLUMENTS

Details of emoluments paid to the directors of the Company are as follows:

	Fees RMB'000	Salaries and other benefits- in-kind RMB'000	Contribution to retirement benefit scheme RMB'000	Total RMB'000
<b>Year ended 31 December 2012</b>				
Executive directors				
Zhang Shiping ("Mr. Zhang")	1,500	85	–	1,585
Zheng Shuliang	500	58	–	558
Zhang Bo	800	76	6	882
Qi Xingli	700	72	5	777
Sub-total	3,500	291	11	3,802
Non-executive directors				
Yang Congsen	600	72	5	677
Zhang Jinglei	300	–	–	300
Sub-total	900	72	5	977
Independent non-executive directors				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
Sub-total	600	–	–	600
Total	5,000	363	16	5,379

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 9. DIRECTORS' EMOLUMENTS (Continued)

	Fees RMB'000	Salaries and other benefits- in-kind RMB'000	Contribution to retirement benefit scheme RMB'000	Total RMB'000
<b>Year ended 31 December 2011</b>				
Executive directors				
Mr. Zhang	1,500	77	–	1,577
Zheng Shuliang	500	52	–	552
Zhang Bo	800	69	5	874
Qi Xingli	700	63	5	768
Sub-total	3,500	261	10	3,771
Non-executive directors				
Yang Congsen	600	64	5	669
Zhang Jinglei	300	–	–	300
Sub-total	900	64	5	969
Independent non-executive directors				
Xing Jian	200	–	–	200
Chen Yinghai	200	–	–	200
Han Benwen	200	–	–	200
Sub-total	600	–	–	600
Total	5,000	325	15	5,340

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.

In the year ended 31 December 2012 and 2011, none of the directors waived any emoluments.

### 10. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group were all the directors during both years, details of their emoluments are set out above.

During both years, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 11. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	1,957,044	2,000,756
Hong Kong Profits Tax	12,123	–
Deferred tax charge (credit) (Note 16)	(21,206)	77,705
	<b>1,947,961</b>	<b>2,078,461</b>

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

In addition, the EIT Law provides that qualified dividend income between two “PRC-resident enterprises” that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. The Group is currently subject to withholding tax at 5%. Included in PRC enterprise income tax is an amount of RMB81,090,000 withholding tax on such dividend income.

The PRC enterprise income tax includes PRC enterprise income tax and withholding tax on dividend income between group entities on the taxable income of subsidiaries established in the PRC.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

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

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
Profit before taxation	7,400,553	7,953,871
Tax at the PRC enterprise income tax rate of 25% (2011: 25%)	1,850,139	1,988,468
Tax effect of expenses not deductible	230	237
Tax effect of tax losses not recognised	30,074	8,666
Effect of different tax rates of subsidiaries	(6,245)	–
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	73,763	81,090
Tax charge for the year	<b>1,947,961</b>	<b>2,078,461</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 12. EARNINGS PER SHARE

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

#### Earnings

	2012 RMB'000	2011 RMB'000
Earnings for the purpose of basic earnings per share	5,452,592	5,875,410
Profit for the year attributable to owners of the company		
Effect of effective interest on the liability component of convertible bonds (Note 28)	69,180	N/A
Effect of gain recognised on the compound derivative component of convertible bonds (Note 28)	(2,253)	N/A
Earnings for the purpose of diluted earnings per share	5,519,519	N/A

#### Weighted average number of shares

	2012 '000 shares	2011 '000 shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,885,000	5,684,000
Effect of conversion of convertible bonds	122,829	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,007,829	N/A

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2011 has been adjusted for the effect of 4,999,000,000 ordinary shares issued pursuant to the capitalisation issue completed on 24 March 2011.

During the year ended 31 December 2011, no diluted earnings per share is presented as there is no potential ordinary shares outstanding.

### 13. DIVIDENDS

Dividends recognised as distribution during the year:

	2012 RMB'000	2011 RMB'000
2011 final dividend – HK\$32 cents per share	1,536,371	–

During the current year, a final dividend of HK\$1,530,100,000 (equivalent to approximately RMB1,240,682,000) at HK\$26 cents per share in respect of the year ended 31 December 2012, based on 5,885,000,000 shares as at 31 December 2012, has been proposed by the directors of the Company and is subject to the approval by the shareholders in the forthcoming annual general meeting.

The final dividend of HK\$1,883,200,000 (equivalent to approximately RMB1,536,371,000) at HK\$32 cents per share in respect of the year end 31 December 2011, was approved by shareholders in the annual general meeting in May 2012 and paid to the owners of the Company.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2011	2,525,574	6,727,927	18,446	2,668	316,969	9,591,584
Additions	37,189	41,142	12,468	853	9,061,881	9,153,533
Transfers	1,641,834	3,844,677	–	–	(5,486,511)	–
At 31 December 2011	4,204,597	10,613,746	30,914	3,521	3,892,339	18,745,117
Additions	28,389	324,522	540	1,381	11,272,154	11,626,986
Acquired on acquisition of a subsidiary (Note 32)	–	–	–	141	–	141
Transfers	4,521,460	4,740,427	1,648	1,035	(9,264,570)	–
Disposals	(247)	–	–	–	–	(247)
At 31 December 2012	<b>8,754,199</b>	<b>15,678,695</b>	<b>33,102</b>	<b>6,078</b>	<b>5,899,923</b>	<b>30,371,997</b>
<b>DEPRECIATION</b>						
At 1 January 2011	391,147	1,083,657	4,108	1,011	–	1,479,923
Provided for the year	214,638	623,096	2,463	539	–	840,736
At 31 December 2011	605,785	1,706,753	6,571	1,550	–	2,320,659
Provided for the year	257,168	1,079,180	2,919	779	–	1,340,046
Disposals	(7)	–	–	–	–	(7)
At 31 December 2012	<b>862,946</b>	<b>2,785,933</b>	<b>9,490</b>	<b>2,329</b>	<b>–</b>	<b>3,660,698</b>
<b>CARRYING AMOUNT</b>						
At 31 December 2012	<b>7,891,253</b>	<b>12,892,762</b>	<b>23,612</b>	<b>3,749</b>	<b>5,899,923</b>	<b>26,711,299</b>
At 31 December 2011	3,598,812	8,906,993	24,343	1,971	3,892,339	16,424,458

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, taking into account their residual values, at the following rates per annum:

Buildings	3.17%-9.50%
Plant and machinery	6.79%-13.57%
Motor vehicles	9.50%-9.60%
Furniture, fixtures and equipment	9.50%-19.20%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 15. PREPAID LEASE PAYMENTS

Movements in the prepaid lease prepayments, which represent land use rights in the PRC, during the year are analysed as follows:

	RMB'000
At 1 January 2011	156,144
Additions	808,321
Released	(7,611)
At 31 December 2011	956,854
Additions	131,865
Released	(21,921)
At 31 December 2012	1,066,798

	2012 RMB'000	2011 RMB'000
Prepaid lease payments related to land use rights analysed for reporting purposes as:		
Current assets	22,394	19,726
Non-current assets	1,044,404	937,128
	<b>1,066,798</b>	956,854

The amount represents the prepayment of rentals for land use rights in the PRC for a period of 41 to 49 years. The Group has pledged land use right as disclosed in Note 33.

Land use rights with carrying amount of RMB34,862,000 (2011: Nil) located in the PRC which the Group is in the process of obtaining the land use right certificates.

### 16. DEFERRED TAX ASSETS/LIABILITIES

The deferred tax assets (liabilities) recognised by the Group and the movements thereon during the year are as follows:

	Fair value changes of held-for-trading financial liabilities RMB'000	Excess of accounting depreciation over tax depreciation RMB'000	Undistributed profits of subsidiary RMB'000	Unrealised profit on intra-group sales RMB'000	Total RMB'000
At 1 January 2011	–	16,766	–	23,465	40,231
Credit (charge) to profit or loss	–	4,641	(81,090)	(1,256)	(77,705)
At 31 December 2011	–	21,407	(81,090)	22,209	(37,474)
Credit (charge) to profit or loss	271	4,641	7,327	8,967	21,206
At 31 December 2012	271	26,048	(73,763)	31,176	(16,268)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 16. DEFERRED TAX ASSETS/LIABILITIES (Continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 RMB'000	2011 RMB'000
Deferred tax assets	57,495	43,616
Deferred tax liabilities	(73,763)	(81,090)
	<b>(16,268)</b>	<b>(37,474)</b>

At 31 December 2012, the Group had unused tax losses of approximately RMB159,324,000 (2011: RMB39,028,000) available to offset against future profits of respective subsidiaries. Included in unrecognised tax losses are losses of RMB121,960,000 (2011:RMB5,158,000) that may be carried forward indefinitely.

The other tax losses unrecognised for deferred tax assets that will expire in

	2012 RMB'000	2011 RMB'000
2017	3,494	—

No deferred tax asset is recognised in relation to such tax losses due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. The management of the Group has reassessed the dividend policy of its PRC subsidiaries based on the Group's current business plan and financial position. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiary will be distributed to its foreign investor and as such, deferred tax liability in this respect was provided for accordingly in the consolidated financial statements of the Group to the extent that such earnings are estimated by the management of the Group to be distributed in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately RMB13,678,329,000 (2011: RMB9,477,274,000), 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.

### 17. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	1,428,187	787,886
Work in process	1,592,553	1,108,729
Finished goods	89,987	12,031
	<b>3,110,727</b>	<b>1,908,646</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 18. TRADE RECEIVABLES

The Group has a policy of allowing 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 net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2012 RMB'000	2011 RMB'000
0-90 days	43,672	1,438

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

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Impairment for trade receivables over 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment and expected recoverable amounts. No impairment has been recognised for the year ended 31 December 2012 (2011: Nil).

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 reporting date. Based on the historical experience of the Group, the directors of the Company believe that no further allowance is required.

The Group has pledged the trade receivables as disclosed in Note 33.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 19. BILLS RECEIVABLE

	2012 RMB'000	2011 RMB'000
Bills receivable	1,319,684	1,312,960

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

	2012 RMB'000	2011 RMB'000
0-90 days	485,299	700,690
91-180 days	834,385	612,270
	1,319,684	1,312,960

#### TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards 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. These financial assets and financial liabilities are carried at amortised cost in the consolidated statement of financial position.

#### As at 31 December 2012

	Bills receivable endorsed to supplier with full recourse RMB'000
Carrying amount of transferred assets	1,255,215
Carrying amount of associated liabilities	(1,255,215)
Net position	-

#### As at 31 December 2011

	Bills receivable endorsed to supplier with full recourse RMB'000
Carrying amount of transferred assets	1,286,260
Carrying amount of associated liabilities	(1,286,260)
Net position	-

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 20. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	2012 RMB'000	2011 RMB'000
Prepayments to suppliers	121,563	99,212
Value added tax receivables	188,035	20,645
Other receivables	4,944	1,945
	<b>314,542</b>	121,802

### 21. RESTRICTED BANK DEPOSITS AND BANK BALANCES

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

The restricted bank deposits carry market interest rate of 0.35% to 3.5% per annum as at 31 December 2012 (2011: 0.36% to 0.5%).

Bank balances and cash at 31 December 2012 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

### 22. TRADE PAYABLES

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

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

	2012 RMB'000	2011 RMB'000
0-180 days	1,091,334	1,202,549
181-365 days	5,389	12,597
1-2 years	822	798
Over 2 years	199	315
	<b>1,097,744</b>	1,216,259

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 23. BILLS PAYABLE

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

	2012 RMB'000	2011 RMB'000
0-90 days	200,000	–

### 24. OTHER PAYABLES

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

	2012 RMB'000	2011 RMB'000
Payables on property, plant and equipment	2,400,173	1,511,252
Retention payables	897,081	650,346
Accrued liability related to litigations (Note)	–	102,260
Other payables and accruals	46,200	26,157
Advance from customers	486,842	225,881
Accrued payroll and welfare	15,638	14,123
Other tax payables	25,307	114,564
	<b>3,871,241</b>	<b>2,644,583</b>

Note: The Group and Wuhan Boiler Company Limited ("Wuhan Boiler", a boiler supplier of the Group) respectively initiated legal proceedings at Shandong Higher People's Court in the prior years. As of 31 December 2011, the Group has accrued in full the remaining sum in relation to the litigations brought by Wuhan Boiler. On 27 March 2012, the Group and Wuhan Boiler signed a settlement agreement relating to legal proceedings. As of 31 December 2012, the Group had fully paid the settlement according to the settlement agreement.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 25. BANK BORROWINGS

#### Bank borrowings

	2012 RMB'000	2011 RMB'000
Secured bank borrowings	2,914,424	1,125,703
Unsecured bank borrowings	11,188,468	6,066,500
	<b>14,102,892</b>	<b>7,192,203</b>
The total borrowings are repayable as follows (Note):		
Within one year	6,659,235	3,210,610
In the second year	2,495,347	3,369,093
In the third year	3,748,310	75,000
In the fourth year	300,000	237,500
In the fifth year	900,000	300,000
	<b>14,102,892</b>	<b>7,192,203</b>
Less: Amount due for settlement within one year and shown under current liabilities	<b>6,659,235</b>	<b>3,210,610</b>
Amount due after one year	<b>7,443,657</b>	<b>3,981,593</b>
Total borrowings		
–at fixed rates	5,714,365	3,100,000
–at floating rates	8,388,527	4,092,203
	<b>14,102,892</b>	<b>7,192,203</b>
Analysis of borrowings by currency:		
– denominated in RMB	7,629,500	6,058,041
– denominated in United States Dollar (“US\$”)	6,153,571	1,134,162
– denominated in Hong Kong Dollar (“HK\$”)	319,821	–
	<b>14,102,892</b>	<b>7,192,203</b>

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements. At the end of 31 December 2012 and 2011, no bank borrowings have contained a repayment on demand clause.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 25. BANK BORROWINGS (Continued)

#### Bank borrowings (Continued)

On 28 November 2011 and 22 February 2012, the Group signed the US\$80 million and US\$120 million (equivalent to approximately RMB1,275,346,000) syndicated loan agreements respectively with 2 years tenor and repayment in 18 installments, interest rate are set at London Interbank Offered Rate ("LIBOR") plus 3.3%. During the current year, the Group early repaid the syndicated loans and the corresponding arrangement fee amounted to approximately RMB63,705,000 was charged to profit or loss immediately (Note 7).

On 25 September 2012, the Group signed the US\$460,000,000 (equivalent to RMB2,917,090,000) and HK\$320,000,000 (equivalent to RMB261,625,600) syndicated loan agreement with 3 years tenor and repayment in 33 installments, interest rate is set at LIBOR plus 3.3% and Hong Kong Interbank Offered Rate ("HIBOR") plus 3.3% respectively all of which was drawn down as at 31 December 2012.

Fixed interest rate borrowings are charged at the prevailing market rates ranging from 2.0% to 8.11% (2011: 5.58% to 8.11%) per annum as at 31 December 2012.

Interest on borrowings denominated in RMB at floating rates are calculated based on the borrowing rates announced by the People's Bank of China, and interest on borrowings denominated in US\$ & HK\$ at floating rates are calculated based on LIBOR and HIBOR respectively.

The effective weighted average interest rate for the year ended 31 December 2012 was 6.64% (2011: 6.58%) per annum.

### 26. MEDIUM-TERM DEBENTURES

	2012 RMB'000	2011 RMB'000
Medium-term debentures	1,486,640	–

Pursuant to the resolution of the shareholders meeting dated 9 March 2012, the Group's subsidiary, Shandong Hongqiao applied to National Association of Financial Market Institutional Investors ("NAFMII") for issuing medium-term debentures of RMB3,000,000,000 ("Debentures") to independent third party debenture holders. The first batch of Debentures amounted to RMB1,500,000,000 of three-year-term was issued on 5 December 2012 at the interest rate of 5.8% per annum. The effective interest rate for the year ended 31 December 2012 was 6.14% per annum after taking into account the effect of transaction costs.

### 27. HELD-FOR-TRADING FINANCIAL LIABILITIES

	2012 RMB'000	2011 RMB'000
Derivative financial instruments-interest rate swaps (Note)	1,084	–

Note: The Group entered into two interest rate swap contracts. Major terms of the contracts as at the end of the reporting period are as follows:

Notional amount	Maturity	Swaps
US\$200,000,000	17 August 2015	From LIBOR plus 3.3% to fixed rate of 3.65%
US\$50,000,000	17 August 2015	From LIBOR plus 3.3% to fixed rate of 3.644%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 28. CONVERTIBLE BONDS

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

The principal terms of the Convertible Bonds are as follows:

#### (a) Option conversion

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

As disclosed in Note 13, a final dividend of HK\$32 cents per share for the year ended 31 December 2011 was approved in the annual general meeting in May 2012. Pursuant to the Convertible Bonds agreement, the Conversion Price per share was adjusted from HK\$7.27 to HK\$6.81 effective from 24 May 2012.

#### (b) Redemption

##### – Redemption at maturity

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

##### – Redemption at the option of the Company

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

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

##### – Redemption at the option of the Bondholders

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 28. CONVERTIBLE BONDS (Continued)

#### (b) Redemption (Continued)

The Convertible Bonds comprised of two components:

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

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

The compound derivative component was valued at fair value by the directors with reference to valuation carried out by an independent valuation firm, Grant Sherman Appraisal Limited. The fair value of compound derivative component is derived by removing the liability component from the fair value of Convertible Bonds which is calculated using Binomial Option Pricing Model. The major inputs used in the models as at 10 April 2012 and 31 December 2012 were as follows:

	10 April 2012	31 December 2012
Stock price	HK\$4.68	HK\$4.07
Exercise price	HK\$7.27	HK\$6.81
Risk-free rate	0.543%	0.281%
Expected life	5 years	4.28 years
Volatility	48.88%	42.72%

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 28. CONVERTIBLE BONDS (Continued)

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

	Liability component RMB'000	Compound derivative component RMB'000	Total RMB'000
Convertible bonds issued on 10 April 2012	712,122	233,403	945,525
Transaction costs	(20,911)	–	(20,911)
Interest charged during the period from 10 April 2012 to 31 December 2012 (Note 7)	69,180	–	69,180
Interest paid during the period from 10 April 2012 to 31 December 2012	(30,980)	–	(30,980)
Changes in fair value during the period from 10 April 2012 to 31 December 2012	–	(2,253)	(2,253)
As at 31 December 2012	<b>729,411</b>	<b>231,150</b>	<b>960,561</b>

No conversion or redemption of the Convertible Bonds has occurred up to 31 December 2012.

### 29. SHARE CAPITAL

The details of the Company's share capital are as follows:

	Notes	Number of shares	Shares capital US\$
Authorised			
Ordinary shares of US\$0.01 each			
At 1 January 2011		5,000,000	50,000
Increase on 16 January 2011	(a)	9,995,000,000	99,950,000
Ordinary shares of US\$0.01 each			
At 31 December 2011 and 2012		<b>10,000,000,000</b>	100,000,000
Issued and fully paid			
Ordinary shares of US\$0.01 each			
At 1 January 2011		1,000,000	10,000
Capitalisation of share premium on 24 March 2011	(a)	4,999,000,000	49,990,000
Issue of shares upon listing of the Company's shares on the Stock Exchange on 24 March 2011	(b)	885,000,000	8,850,000
Ordinary shares of US\$0.01 each			
At 31 December 2011 and 2012		<b>5,885,000,000</b>	58,850,000



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 29. SHARE CAPITAL (Continued)

	2012 RMB'000	2011 RMB'000
Shown on the consolidated statement of financial position	<b>386,206</b>	386,206

Notes:

- (a) Pursuant to the written resolutions of all shareholders of the Company passed on 16 January 2011, the authorised share capital of the Company was increased from US\$50,000 to US\$100,000,000 by the creation of an additional 9,995,000,000 shares. A sum of US\$49,990,000 standing to the credit of the share premium account of the Company was capitalised and applied in paying up in full at par 4,999,000,000 shares allotted and issued to the shareholders of the Company whose name appeared on the register of members of the Company at the close of business on 24 March 2011 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid on 24 March 2011.
- (b) On 24 March 2011, the Company issued 885,000,000 ordinary shares of US\$0.01 each at the price of HK\$7.20 per share by way of placing and public offering. On the same date, the Company's shares were listed on the Stock Exchange.

The shares issued ranking pari passu with other shares in issue in all respects.

### 30. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year 31 December 2012.

The capital structure of the Group consists of net debt, which comprising the bank borrowings, medium-term debentures and convertible bonds disclosed in Notes 25, 26 and 28, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 29 and share premium and reserves in the consolidated statements of financial position.

The 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 2012

### 31. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
<b>Financial assets</b>		
Loans and receivables	11,415,331	8,815,606
<b>Financial liabilities</b>		
Liabilities at amortised cost	20,975,779	10,712,600
Convertible bonds – derivative component	231,150	–
Held-for-trading financial liabilities	1,084	–
	<b>21,208,013</b>	10,712,600

#### (b) Market risk

The Group's activities expose it primarily to the foreign currency risk and financial risks of interest rates.

The Group's overall market risk management objectives and policies remain unchanged from prior year.

##### *Foreign currency risk management*

Several subsidiaries of the Company have foreign currency purchases, financing arrangements and capital expenditure which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	2012 RMB'000	2011 RMB'000
<b>Assets</b>		
US\$		
Bank balances and cash	455,674	20,309
HK\$		
Bank balances and cash	15,328	–
<b>Liabilities</b>		
US\$		
Bank borrowings	6,153,571	1,134,162
Convertible bonds – liability component	729,411	–
Trade payables	248,840	–
Held-for-trading financial liabilities	1,084	–
	<b>7,132,906</b>	1,134,162
HK\$		
Bank borrowings	319,821	–

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (b) Market risk (Continued)

##### *Foreign currency risk management (Continued)*

##### *Sensitivity analysis*

The following table details the Group's sensitivity to a reasonably possible change of 5% (2011: 5%) strengthening of RMB against the foreign currencies listed above. 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 rate. 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.

	2012 RMB'000	2011 RMB'000
(Decrease) increase in profit for the year if RMB weakens against		
US\$	(250,396)	(41,769)
HK\$	(11,418)	–
if RMB strengthens against		
US\$	250,396	41,769
HK\$	11,418	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

##### *Interest rate risk management*

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings, medium-term debentures and convertible bonds. The cash flow interest rate risk of the Group relates primarily to the restricted bank deposits, bank balances and floating interest rate bank borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swap contracts to hedge against its exposures to changes in fair values of certain fixed-rate bank borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

##### *Sensitivity analysis*

The sensitivity analysis below have 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 27 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 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (b) Market risk (Continued)

##### *Interest rate risk management (Continued)*

##### *Sensitivity analysis (Continued)*

If interest rates had been 27 basis points higher/lower and all other variables were held constant:

	2012 RMB'000	2011 RMB'000
Increase (decrease) in profit for the year:		
As a result of increase in interest rate	1,027	6,898
As a result of decrease in interest rate	(1,027)	(6,898)

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.

#### (c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no concentration of credit risk in respect of trade receivables.

The Group has concentration of credit risk in respect of bills receivable as the Group's bills receivable from the Group's top customer amounted to RMB458,658,000 (2011: RMB598,000,000), and represented 35% (2011: 46%) of the total bills receivable as at 31 December 2012. In addition, the Group's top five major customers amounted to RMB1,099,536,000 (2011: RMB1,200,042,000) and represented 83% (2011: 91%) of the total bills receivable respectively as at 31 December 2012. The credit risk on bills receivable is limited because most of the Group's bills receivable are bank acceptances bills under various banks of good credit ratings.

The credit risk on bank balances and deposits is limited because such amounts are placed with various banks with good credit ratings. Other than disclosed above, the Group does not have any other significant concentration of credit risk.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (d) 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 convertible bonds, bank borrowings and medium-term debentures. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate outstanding at the end of each reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (d) Liquidity risk management (Continued)

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6-12 months RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2012</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	6.11	1,693,318	1,872,332	534,359	2,103,822	6,203,831	5,714,365
Floating-rate bank borrowings	7.19	344,834	3,656,802	2,447,584	3,168,191	9,617,411	8,388,527
Medium-term debentures	5.80	43,500	43,500	87,000	1,581,041	1,755,041	1,486,640
Trade payables	-	1,097,744	-	-	-	1,097,744	1,097,744
Bills payable	-	200,000	-	-	-	200,000	200,000
Other payables	-	3,094,986	264,106	-	-	3,359,092	3,359,092
Convertible bonds	6.50	30,642	30,642	61,284	959,848	1,082,416	729,411
		6,505,024	5,867,382	3,130,227	7,812,902	23,315,535	20,975,779
<b>Derivatives financial liabilities</b>							
<b>- net settlement</b>							
Held-for-trading financial liabilities							
- Interest rate swaps		940	482	(28)	(286)	1,108	1,084
		940	482	(28)	(286)	1,108	1,084
<b>At 31 December 2011</b>							
<b>Non-derivative financial liabilities</b>							
Fixed-rate bank borrowings	6.37	448,630	1,037,465	1,417,232	635,104	3,538,431	3,100,000
Floating-rate bank borrowings	7.05	1,461,288	676,818	2,217,966	120,420	4,476,492	4,092,203
Trade payables	-	1,216,259	-	-	-	1,216,259	1,216,259
Other payables	-	1,729,095	575,043	-	-	2,304,138	2,304,138
		4,855,272	2,289,326	3,635,198	755,524	11,535,320	10,712,600



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (d) Liquidity risk management (Continued)

The amounts included above for floating interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

#### (e) Fair value

The fair value of the compound derivative component is derived by removing the liability component from the fair value of Convertible Bonds which is calculated using Binomial Option Pricing Model.

The fair value of interest rate swaps are determined with reference to prices quoted by financial institution.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

As at 31 December 2012, the fair value of the liability component of the Convertible Bonds with carrying value of RMB729,411,000 amounted to RMB713,135,000. The directors of the company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 31. FINANCIAL INSTRUMENTS (Continued)

#### (e) Fair value-continued (Continued)

##### Fair value measurements recognised in the consolidation statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities				
– interest rate swaps	–	1,084	–	1,084
Convertible bonds – derivative component	–	–	231,150	231,150
<b>Total</b>	<b>–</b>	<b>1,084</b>	<b>231,150</b>	<b>232,234</b>

There were no transfers between Level 1 and 2 in the current year.

##### Reconciliation of Level 3 fair value measurements of financial liabilities

	Convertible bonds derivative component RMB'000
At 1 January, 2012	–
Issues	233,403
Changes in fair value during the period	(2,253)
At 31 December, 2012	231,150



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 32. ACQUISITION OF A SUBSIDIARY

On 27 December 2012, the Company entered into a capital injection agreement to invest RMB36,963,000 in PT. Well Harvest Winning Alumina Refinery (宏發韋立氧化鋁公司) ("Well Harvest"), and obtained 60% equity interests in Well Harvest.

As at the date of acquisition, Well Harvest has not yet commenced operation and its production facility was still under construction. As it did not constitute a business under IFRS 3 Business Combinations and the acquisition was in substance an acquisition of the assets of Well Harvest, the above transaction was accounted for as acquisition of assets and liabilities.

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

	RMB'000
<b>Non-current assets</b>	
Property, plant and equipment	141
<b>Current assets</b>	
Other receivables	874
Cash and cash equivalents	61,747
<b>Current liabilities</b>	
Other payables, deposits received and accruals	(1,157)
<b>Non-controlling interests (40% in Well Harvest)</b>	(24,642)
	<u>36,963</u>
<b>Net cash outflow arising on acquisition:</b>	
	RMB'000
Cash consideration paid	36,963
Less: cash and cash equivalents acquired	(61,747)
	<u>(24,784)</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 33. 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:

	2012 RMB'000	2011 RMB'000
Restricted bank deposits	872,088	14,468
Land use rights	32,016	32,713
	<b>904,104</b>	47,181

In addition, the Company pledged its shares in China Hongqiao Investment Limited ("Hongqiao Investment"), Hongqiao Investment (Hong Kong) Limited ("Hongqiao Hong Kong"), Hongqiao International Trading Limited ("Hongqiao Trading") and its trade receivables as collateral for a syndicated loan facility of US\$460,000,000 (equivalent to RMB2,917,090,000) and HK\$320,000,000 (equivalent to RMB261,625,600), all of which was drawn down as at 31 December 2012.

In addition, the Company pledged its shares in Hongqiao Investment and Hongqiao Hong Kong as collateral for a syndicated loan facility of US\$80,000,000 (equivalent to RMB504,072,000) and a bank borrowing facility of US\$100,000,000 (equivalent to RMB630,090,000), all of which were drawn down as at 31 December 2011. The guarantees were released upon early repayment of relevant syndicated loan as set out in Note 7.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 34. OPERATING LEASES

#### The Group as lessee

	2012 RMB'000	2011 RMB'000
Minimum lease payments paid under operating leases for premises	3,447	3,565

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:

	2012 RMB'000	2011 RMB'000
Within one year	3,669	3,447
In the second to fifth year inclusive	7,501	1,436
	11,170	4,883

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

### 35. COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided	4,572,760	5,869,031
– authorised but not contracted for	14,779,206	8,541,440
	19,351,966	14,410,471

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 36. RELATED PARTY TRANSACTIONS

#### (a) Name and relationship with related parties

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

Notes:

- (i) The English names of these companies are for reference only and have not been registered.
- (ii) Mr. Zhang, the director and the controlling shareholder of the ultimate holding company of the Company, has significant influence over Chuangye Group during the two years ended 31 December 2012.

#### (b) The Group has entered into the following significant transactions with its related party during the two years ended 31 December 2012:

	2012 RMB'000	2011 RMB'000
Purchases of carbon anode blocks – Aluminum Technology	262,367	333,744
Sales of slag of carbon anode blocks – Aluminum Technology	24,875	23,999

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

	2012 RMB'000	2011 RMB'000
Short term employee benefit	5,775	5,684
Retirement benefits scheme contributions	33	28
	5,808	5,712

### 37. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group has participated in certain defined contribution retirement schemes managed by the respective municipal governments where the Group operates, covering all permanent staff of the Group. The Group has no obligation beyond the contributions which are calculated based on 18% to 19% of permanent staff basic salaries during both years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 38. PARTICULARS OF SUBSIDIARIES

The particulars of subsidiaries of the Company as at 31 December 2011 and 2012 are set out as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at		Principal activity
			31 December 2012 %	31 December 2011 %	
Hongqiao Investment	BVI 5 February 2010	US\$200	100	100	Investment holding
Well Harvest (note ii)	Jakarta, Indonesia 20 March 2012	IDR94,000,000,000	60	–	Manufacture and sales of alumina
Hongqiao Hong Kong	Hong Kong 18 February 2010	HK\$10,100	100	100	Investment holding
Hongqiao Trading (note iii)	Hong Kong 11 April 2012	HK\$10,000,000	100	–	Trading of bauxite
Shandong Hongqiao (note i)	PRC 27 July 1994	US\$1,053,120,000	100	100	Manufacture and sales of aluminum products
山東魏橋鋁電有限公司 (Shandong Weiqiao Aluminum Power Co., Ltd.) (note i)	PRC 25 December 2002	RMB10,000,000,000	100	100	Manufacture and sales of aluminum products
濱州市政通新型鋁材有限公司 (Zhengtong) (notes i)	PRC 20 May 2008	RMB3,200,000,000	100	100	Manufacture and sales of aluminum products
惠民匯宏新材料有限公司 (Huimin Huihong New Aluminum Profiles Co., Ltd.) (notes i)	PRC 6 December 2011	RMB200,000,000	100	100	Manufacture and sales of aluminum products

Notes:

- (i) The English names of these companies are for reference only and have not been registered.
- (ii) Newly acquired during the year ended 31 December 2012.
- (iii) Newly established during the year ended 31 December 2012.
- (iv) Other than the issuance of convertible bonds by the Company, three-year-term medium-term debentures by Shandong Hongqiao as disclosed in Note 26, none of other subsidiaries had issued any debt securities during the year ended 31 December 2012.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2012 RMB'000	2011 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	479	532
Investment in subsidiaries	5,744,446	5,187,781
Amount due from subsidiaries	5,295,604	3,451,637
	<b>11,040,529</b>	8,639,950
<b>CURRENT ASSETS</b>		
Amount due from a subsidiary	35,432	823,054
Bank balances and cash	383,132	25,092
	<b>418,564</b>	848,146
<b>CURRENT LIABILITIES</b>		
Bank borrowings – due within one year	–	835,611
Other payables	4,597	2,514
	<b>4,597</b>	838,125
<b>NET CURRENT ASSETS</b>	<b>413,967</b>	10,021
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>11,454,496</b>	8,649,971
<b>CAPITAL AND RESERVES</b>		
Share capital (Note 29)	386,206	386,206
Reserves	8,663,316	7,990,672
<b>TOTAL EQUITY</b>	<b>9,049,522</b>	8,376,878
<b>NON-CURRENT LIABILITIES</b>		
Amount due to a subsidiary	1,444,413	–
Bank borrowings – due after one year	–	273,093
Convertible bonds – Liability component	729,411	–
Convertible bonds – Derivative component	231,150	–
	<b>11,454,496</b>	8,649,971

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

### 39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

#### Movement in reserve

	Share capital RMB'000	Share premium RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2011	386,206	8,026,800	(3,906)	8,409,100
Profit and total comprehensive income for the year	–	–	(32,222)	(32,222)
At 31 December 2011	386,206	8,026,800	(36,128)	8,376,878
At 1 January 2012	386,206	8,026,800	(36,128)	8,376,878
Profit and total comprehensive income for the year	–	–	2,209,015	2,209,015
Dividend recognised as distribution	–	–	(1,536,371)	(1,536,371)
At 31 December 2012	386,206	8,026,800	636,516	9,049,522

### 40. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2013, the second batch of Debentures amounted to RMB1,500,000,000 of five-year-term was issued. The details of Debentures are set out in Note 26.

## REGISTERED OFFICES

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P.O. Box 2804  
Grand Cayman  
KY1-1112  
Cayman Islands

*Place of Business in Hong Kong*  
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The Center  
99 Queen's Road, Central  
Hong Kong

## TRUSTEE AND PAYING AGENT

The Bank of New York Mellon, London Branch  
40th Floor, One Canada Square  
London E14 5AL, United Kingdom

## REGISTRAR AND TRANSFER AGENT

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L-2453 Luxembourg

## LEGAL ADVISORS TO THE COMPANY

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## LEGAL ADVISORS TO THE TRUSTEE

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## INDEPENDENT ACCOUNTANTS

**Deloitte Touche Tohmatsu**  
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88 Queensway, Hong Kong



