

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION INTO THE UNITED STATES

**IMPORTANT: You must read the following before continuing.** The following applies to the 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 the 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 the Issuer (as defined in the Offering Circular) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED HEREIN 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 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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. 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 AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

#### **Confirmation of 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 purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to the Managers (as defined in the Offering Circular) and the Issuer (as defined in the Offering Circular) (1) that you and any customers you represent are not, and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not, located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Circular.

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

The materials relating to any offering of securities described in the Offering Circular do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer or the Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Managers or any affiliate of the Managers are licenced brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The 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 neither the Managers or any person who controls the Managers nor any director, officer, employee, representative, adviser nor agent of the Managers 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 Managers.

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

**Actions that you may not take:** If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.



**淮南市交通控股有限公司**  
**HUAI AN TRAFFIC HOLDING CO., LTD**

**Huai'an Traffic Holding Co., Ltd.**

**(淮南市交通控股有限公司)**

*(incorporated with limited liability in the PRC)*

**U.S.\$300,000,000 6.0 per cent. Bonds due 2022**  
**Issue Price: 99.46 per cent.**

The U.S.\$300,000,000 6.0 per cent. Bonds due 2022 (the “**Bonds**”) will be issued by Huai'an Traffic Holding Co., Ltd. (淮南市交通控股有限公司) (the “**Issuer**” or the “**Company**”), a company incorporated in the People's Republic of China (the “**PRC**”) with limited liability.

The Bonds will bear interest on their outstanding principal amount from and including 19 September 2019 (the “**Issue Date**”) at the rate of 6.0 per cent. per annum. Interest on the Bonds is payable semi-annually in arrear in equal instalments on 19 March and 19 September in each year, commencing on 19 March 2020. Payments on the Bonds will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or any political subdivision or any authority therein or thereof having power to tax to the extent described under “*Terms and Conditions of the Bonds – Taxation*”.

The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the terms and conditions of the Bonds (the “**Terms and Conditions**”) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The Issuer undertakes that it will (i) within 15 Registration Business Days (as defined in the Terms and Conditions) after the Issue Date, register or cause to be registered with the State Administration of Foreign Exchange of the PRC or its local branch (“**SAFE**”) the Bonds pursuant to the Administrative Measures for Foreign Debt Registration (外債登記管理辦法) and its operating guidelines issued by SAFE, effective as at 13 May 2013 (“**Foreign Debt Registration**”), (ii) use its best endeavours to complete the Foreign Debt Registration and obtain a registration certificate (or any other document evidencing the completion of the Foreign Debt Registration) from SAFE on or before the Registration Deadline (being 90 Registration Business Days (as defined in the Terms and Conditions) after the Issue Date) and (iii) comply with all applicable PRC laws and regulations in relation to the Bonds. For consequences of non-registration, see “*Risk Factors – Risks Relating to the Bonds – Any failure to complete the relevant filings under the NDRC Circular and the relevant registration under SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer and/or the investors of the Bonds*”.

In accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the “**NDRC Circular**”) issued by the National Development and Reform Commission of the PRC or its local counterparts (“**NDRC**”) on 14 September 2015 which came into effect on the same day, the Issuer has registered the issuance of the Bonds with the NDRC and obtained a certificate from NDRC on 3 February 2019 evidencing such registration and undertakes that it will (i) within 10 Registration Business Days after the Issue Date file or cause to be filed with the NDRC the requisite information and documents in accordance with the NDRC Circular and any implementation rules as issued by the NDRC from time to time and (ii) comply with all applicable PRC laws, rules and regulations in connection with the Bonds.

The PRC government (including the Huai'an Municipal Government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer, see “*Risk Factors – Risks relating to the Bonds – The PRC government and the Huai'an Municipal Government have no obligations under the Bonds*”.

Unless previously redeemed, or purchased and cancelled, the Issuer will redeem the Bonds at their principal amount on 19 September 2022 (the “**Maturity Date**”). The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (as defined below) (which notice shall be irrevocable) and in writing to the Trustee (as defined in the Terms and Conditions) and the Principal Paying Agent (as defined in the Terms and Conditions), at their principal amount, together with any interest accrued up to (but excluding) the date fixed for redemption, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including a but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 12 September 2019, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. At any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions), each holder of Bonds (each a “**Bondholder**”) will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of that Bondholder's Bonds on the Put Settlement Date (as defined in the Terms and Conditions) at 101 per cent. (in the case of a redemption for a Change of Control (as defined in the Terms and Conditions) or 100 per cent. (in the case of a redemption for a No Registration Event (as defined in the Terms and Conditions)) of their principal amount, together in each case with accrued interest up to (but excluding) such Put Settlement Date. See “*Terms and Conditions - Redemption and Purchase*”.

For a more detailed description of the Bonds, see “*Terms and Conditions of the Bonds*” beginning on page 46.

The Bonds will be issued in the specified denominations of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof.

**Investing in the Bonds involves risks. See “*Risk Factors*” beginning on page 13 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

**The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see “*Subscription and Sale*”.**

Application will be made to The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) for the listing of the Bonds by way of debt issues to professional investors only (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap.571) of Hong Kong (together, “**Professional Investors**”). This Offering Circular is for distribution to Professional Investors only. **Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.**

**The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.**

**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the “**SFA**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A of the SFA) that the Bonds are “*prescribed capital markets products*” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Fitch Ratings Inc. (“**Fitch**”) has assigned a corporate rating of “**BB**” with a stable outlook to the Issuer. The Bonds are expected to be rated “**BB**” by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Bonds will be represented initially by interests in a global certificate (the “**Global Certificate**”) in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

**Sole Global Coordinator**

**Guotai Junan International**

**Joint Managers and Joint Bookrunners**

**Guotai Junan  
International**

**CMBC Capital**

**Haitong  
International**

**Industrial Bank  
Co., Ltd.  
Hong Kong Branch**

**Orient Securities  
(Hong Kong)**

**SPDB  
International**

## NOTICE TO INVESTORS

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON 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 IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR ANY OF ITS SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Issuer, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries and affiliates (together with the Issuer, the “**Group**”) and the Bonds which is material in the context of the issue and offering of the Bonds (including the information which is required by applicable laws and according to the particular nature of the Issuer, the Group and the Bonds and is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Group and the rights attaching to the Bonds); (ii) the statements contained in this Offering Circular, are in every material particular true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Group 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 the Issuer, the Group, the transaction documents in relation to the Bonds or the Bonds, the omission of which would, in the context of the issue and offering of the Bonds make any statement in this Offering Circular misleading; (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements relating to the Issuer, the Group, the transaction documents in relation to the Bonds or the Bonds; (vi) the Offering Circular does not include an untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (vii) the statistical, industry and market-related data and forward looking statements included in this Offering Circular are based on or derived or extracted from sources which the Issuer believes to be accurate and reliable in all material respects.

The Issuer has prepared this Offering Circular solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Guotai Junan Securities (Hong Kong) Limited, CMBC Securities Company Limited, Haitong International Securities Company Limited, Industrial Bank Co., Ltd. Hong Kong Branch, Orient Securities (Hong Kong) Limited and SPDB International Capital Limited (the “**Managers**”) or the Issuer to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Hong Kong, the PRC, Singapore and Japan and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Bonds, and distribution of this Offering Circular, see “*Subscription and Sale*”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is

personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to in this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Managers, the Trustee or the Agents (as defined in the Terms and Conditions) or their respective affiliates, directors, officers, employees, agents, representatives or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers that any recipient of this Offering Circular should purchase the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer and the merits and risks involved in investing in the Bonds. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers accepts any responsibility for the contents of this Offering Circular and assumes no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or on their behalf in connection with the Issuer or the issue and offering of the Bonds. Each of the Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents, representatives or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer or the

Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers.

**IN CONNECTION WITH THIS OFFERING, ANY OF THE MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS STABILISATION MANAGER (IN SUCH CAPACITY, THE “STABILISATION MANAGER”) OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISATION MANAGER MAY, OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE(S) OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.**

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are “prescribed capital markets products” (as defined in the CMP Regulations 2018).

Any of the Managers and their respective affiliates may purchase the Bonds 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 Bonds and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Group.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

The contents of this Offering Circular have not been reviewed by any regulatory authority in the PRC, Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offer. If any investor is in any doubt about any of the contents of this Offering Circular, that investor should obtain independent professional advice.

### **Industry and Market Data**

Market data and certain industry forecasts used throughout this Offering Circular have been obtained based on, among other sources, internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has

been obtained from sources believed by the Issuer to be reliable and accurate but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers makes any representation as to the correctness, accuracy or completeness of that information complied within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

### **Presentation of Financial Information**

This Offering Circular contains consolidated financial information of the Issuer as at and for the years ended 31 December 2016, 2017 and 2018, which has been extracted from the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2016, 2017 and 2018 (collectively, the “**Issuer’s Audited Consolidated Financial Statements**”), included elsewhere in this Offering Circular. The Issuer’s Audited Consolidated Financial Statements were prepared and presented in accordance with the Accounting Standards for Business Enterprises in the PRC (the “**PRC GAAP**”) and have been audited by Zhongxinghua Certified Public Accountants LLP (“**Zhongxinghua**”), the independent auditors of the Issuer in accordance with China Standards on Auditing for Certified Public Accountants.

The Issuer has not prepared the Issuer’s Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards (“**IFRS**”). As advised by Zhongxinghua, there are no material differences between PRC GAAP and IFRS with respect to the determination of the Issuer’s consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018.

The Issuer’s Audited Consolidated Financial Statements have only been prepared in Chinese (the “**Chinese Financial Statements**”). An English translation of the Chinese Financial Statements (the “**Financial Statements Translation**”) has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited financial statements, and is qualified in its entirety by, and is subject to, the financial information set out or referred to in, the Chinese Financial Statements. The Chinese Financial Statements are available at the following website: [www.chinamoney.com.cn](http://www.chinamoney.com.cn).

The Managers have not independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

According to the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (Fa Gai Wai Zi [2018] No. 706)(國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知(發改外資[2018]706號)) (“**Circular 706**”), any public interest assets such as public schools, public hospitals, public cultural facilities, parks, public squares, office buildings of government departments and public institutions, municipal roads, non-toll bridges, non-operating water conservancy facilities, no-charge pipe network facilities and other public interest assets and the usage rights of reserve land (the “**Public Interest Assets**”) cannot be counted towards the Group’s assets for the purposes of issuing medium and long-term foreign debt. As at 31 December 2018, the Group’s Public Interest Assets amounted to approximately RMB5.0 billion, representing approximately 11.3 per cent. of the Group’s total assets. See “*Risk Factors – Risks relating to the Bonds – Any public interest assets of the Group should not be taken into account when the Group’s business, financial condition, results of operations and prospects are assessed*” for further information.

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “**PRC**”, “**China**” and “**mainland China**” are to the People’s Republic of China (excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan), and all references to the “**United States**” and “**U.S.**” are to the United States of America, all references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s Republic of China; all references to “**Renminbi**” and “**RMB**” are to the lawful currency of the PRC, and all references to “**USD**”, “**U.S.\$**” and “**U.S. dollars**” are to the lawful currency of the United States of America. All references to “**mu**” are to the Chinese land surface area measurement unit. Historical amounts translated into Renminbi have been translated at historical rates of exchange. Such translations should not be construed as representations that the amounts referred to herein could have been or could be converted into Renminbi at those rates or any other rate at all. This Offering Circular contains translation of certain Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Issuer has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.8755 to U.S.\$1.00 (the noon buying rate in New York City on 31 December 2018 as set forth in the weekly H.10 statistical release of the Board of Governors of the Federal Reserve System). Further information regarding exchange rate is set forth in “*Exchange Rates*” in this Offering Circular. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all, or *vice versa*.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese names prevail.

## FORWARD-LOOKING STATEMENTS

The Issuer has made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms, such as “anticipate”, “target”, “believe”, “can”, “would”, “could”, “estimate”, “expect”, “aim”, “intend”, “may”, “plan”, “will”, “would” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, operating income and profitability, planned projects and other matters as they relate to the Issuer and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or by any third party) involve known and unknown risks, including those disclosed under the caption “*Risk Factors*”, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer or the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause the actual results, performances and achievements of the Issuer, the Group or any member of the Group to be materially different include, among others:

- the Group’s ability to successfully implement its business plans and strategies;
- various business opportunities that the Group may pursue;
- financial condition, performance and business prospects of the Group;
- the Group’s capital expenditure plans and its ability to carry out those plans;
- access and cost of capital and financing;
- changes in the competition landscape in the industries where the Group operates;
- any changes in the laws, rules and regulations of the PRC government and the Huai’an Municipal Government and the rules, regulations and policies of the relevant governmental authorities relating to the Group’s business;
- general political and economic conditions, including those related to the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which the Group operates;
- fluctuations in prices of and demand for products and services the Group provides;
- macroeconomic measures taken by the PRC government to manage economic growth;
- natural disasters, industrial action, terrorist attacks and other events beyond the control of the Group;

- changes in the global economic conditions; and
- other factors, including those discussed in “*Risk Factors*”.

The Issuer does not undertake any obligation to update or revise publicly any of the opinions or forward-looking statements expressed in this Offering Circular as a result of any new information, future events or otherwise.

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## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety, including the section entitled “Risk Factors”, before making an investment decision.*

## OVERVIEW

The Group is the sole investment and financing platform for transportation infrastructure construction of the Huai’an Municipal Government and is wholly-owned by the Huai’an Municipal Government. Since its establishment in 2003, the Group has played an important role in implementing the Huai’an Municipal Government’s blueprint for transportation infrastructure construction and has received strong financial and operational support from the Huai’an Municipal Government. The Group’s operations are categorised into the following business segments: (i) infrastructure construction, (ii) transportation logistics, (iii) commercial trading and (iv) other businesses including restaurant operation, tourism and advertising.

As at 31 December 2016, 2017 and 2018, the consolidated total assets of the Group was approximately RMB36,964.4 million, RMB42,704.7 million and RMB44,593.9 million, respectively. For the three years ended 31 December 2016, 2017 and 2018, the operating incomes of the Group was approximately RMB1,537.7 million, RMB2,121.1 million and RMB2,405.9 million, respectively. For the year ended 31 December 2016, the Group had an operating loss of approximately RMB40.4 million, and for the years ended 31 December 2017 and 2018, the Group had operating profits of approximately RMB200.7 million and RMB187.8 million, respectively. With strong support from the Huai’an Municipal Government, the Group has expanded its business rapidly across its business segments in recent years. Set forth below is an overview of the Group’s businesses:

- **Infrastructure construction:** The Group’s infrastructure construction business involves the development of transportation infrastructure projects as well as the redevelopment of shantytown projects (棚戶區改造) and the construction of affordable housing projects (保障性住房建設) in Huai’an. As at 31 December 2018, the Group had financed and developed 75 infrastructure construction projects, and had invested an amount of approximately RMB14.3 billion in such projects. For the transportation infrastructure development business, the Group generates operating incomes mainly through construction fees in connection with the transportation infrastructure development projects that it conducted, as well as management fees the Group receives from projects it completed before 2014. For the shantytown redevelopment and affordable housing construction business, the Group is normally designated by the Huai’an Housing and Urban-rural Development Bureau (淮安市住房和城鄉建設局) to carry out the construction work. For the three years ended 31 December 2016, 2017 and 2018, the Group’s operating incomes generated by the infrastructure construction business segment was RMB1,190.5 million, RMB1,616.6 million and RMB1,804.8 million, respectively.
- **Transportation logistics:** The Group operates its transportation logistics business through certain of its subsidiaries, including Huai’an Port Logistics Group and Huai’an Civil Airport Co., Ltd. This business segment mainly consists of seven sub-segments, namely, city bus transportation service, port operations and container logistics, airport operations, railroad operations and management, tram operations, highway tolls operations and public service. The Group generates operating incomes from the transportation logistics segment mainly through fees collected for the city bus transportation and the logistics services that the Group provided. For the three years ended 31 December 2016, 2017 and 2018, the Group’s operating incomes generated by the transportation logistics business segment was RMB221.9 million, RMB244.4 million and RMB310.9 million, respectively.

- **Commercial trading:** The Group operates its commercial trading business through its subsidiaries, including Huai'an Traffic Investment Co., Ltd., Huai'an Riverstone Trading Co., Ltd. and Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. Huai'an Traffic Investment Co., Ltd. was founded in 1993 and is principally engaged in the sale of cement, cotton, and industrial chemicals. Huai'an Riverstone Trading Co., Ltd. was founded in 2003 and is principally engaged in the sale of small household appliances. Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. was founded in 1998 and is principally engaged in the production and sale of plastic pipes and fittings. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the commercial trading business segment was RMB88.9 million, RMB188.6 million and RMB217.7 million, respectively.
- **Other businesses:** The Group also invests in and operates other businesses, such as restaurant operation, tourism, and advertising. The Group invests in and operates its tourism business in Huai'an, which is a famous city known for its long history and rich culture. Huai'an is located at the intersection of Huai River and the Jinghang Grand Canal, and it has long been a key transportation hub in the region and is widely expected to be developed into an international and modern city. By acquiring a number of quality assets and resources, the Group intends to further expand its restaurant operation and tourism businesses. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the other businesses business segment was RMB36.4 million, RMB71.5 million and RMB72.6 million, respectively.

## COMPETITIVE STRENGTHS

The Group believes that its competitive strengths outlined below distinguish it from its competitors and are important to its success and future development:

- The sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government and wholly-owned by the Huai'an Municipal Government
- The Group's quality assets and the stable cash flow generated from such quality assets
- Strong support from the Huai'an Municipal Government
- Strong financial profile with access to multiple sources of capital
- Experienced management team with sound corporate governance

## BUSINESS STRATEGIES

The Group's strategies are directed and approved by the Huai'an Municipal Government. The objective of the Group is to become a leading enterprise in the transportation infrastructure development industry. The Group intends to achieve its objective by implementing the following strategies:

- Further strengthen the infrastructure construction business
- Further explore innovative financing channels and expand the financing sources of the Group
- Further improve the synergies among the Group's different business segments
- Continue to adopt centralised management of the Group's capital and a prudent financial policy to control cost and improve profitability
- Attract, motivate and cultivate high-quality talent

## **RECENT DEVELOPMENTS**

### **Interim Results as at and for the Six Months Ended 30 June 2019**

As at 30 June 2019, as compared to the financial information as at 31 December 2018, the Group's short-term loan increased primarily due to an increase in bank loans; the Group's notes payable increased primarily due to an increase in bank's acceptance bills issued by the Group; the Group's debts payable increased primarily due to an increase in bonds issued in the domestic capital markets. As a result of aforementioned reasons, the Group's total liabilities increased as at 30 June 2019 compared to the financial information as at 31 December 2018. For the six months ended 30 June 2019, the Group experienced increases in operating costs and management expenses as compared to the same period in the preceding year, primarily due to an accompanying increase in operating incomes. Furthermore, the Group experienced a decrease in other income in the six months ended 30 June 2019 compared with the same period in the previous year, primarily due to a decrease in non-recurring government subsidies. As a result of aforementioned reasons, the Group's net profits for the six months ended 30 June 2019 decreased compared to the same period in the preceding year. Such financial information has not been subject to an audit or review by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review.

Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. The financial information as at and for the six months ended 30 June 2019 should not be taken as an indication of the Group's expected financial condition or results of operations as at and for the full financial year ending 31 December 2019. See "*Risk Factors – Risks Relating to the Group's Business – The Issuer published and may continue to publish periodical financial information in the PRC pursuant to applicable PRC regulatory rules. Investors should be cautious and not place undue reliance on the Issuer's unaudited and unreviewed financial information or the discussion of material financial trends in relation to the Issuer's unaudited and unreviewed financial information as at and for the six months ended 30 June 2019.*"

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information of the Issuer as at and for the years ended 31 December 2016, 2017 and 2018 set forth below is derived from and should be read in conjunction with the Issuer's Audited Consolidated Financial Statements, including the notes thereto and the auditor's reports in respect of the years ended 31 December 2016, 2017 and 2018 included elsewhere in this Offering Circular. The Issuer's Audited Consolidated Financial Statements have been audited by Zhongxinghua in accordance with China Standards on Auditing for Certified Public Accountants.

The Issuer has not prepared the Issuer's Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards ("**IFRS**"). As advised by Zhongxinghua, there are no material differences between PRC GAAP and IFRS with respect to the determination of the Issuer's consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018.

The Issuer's Audited Consolidated Financial Statements have only been prepared in Chinese. An English translation of the Chinese Financial Statements (the "**Financial Statements Translation**") has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited financial statements, and is qualified in its entirety by, and is subject to, the financial information set out or referred to in, the Chinese Financial Statements. The Chinese Financial Statements are available at the following website: [www.chinamoney.com.cn](http://www.chinamoney.com.cn)

The Managers have not independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

According to Circular 706, any Public Interest Assets cannot be counted towards the Group's assets for the purposes of issuing medium and long-term foreign debt. As at 31 December 2018, the Group's Public Interest Assets amounted to approximately RMB5.0 billion, representing approximately 11.3 per cent. of the Group's total assets. See "*Risk Factors – Risks relating to the Bonds – Any public interest assets of the Group should not be taken into account when the Group's business, financial condition, results of operations and prospects are assessed*" for further information.

## Summary Consolidated Balance Sheet Data

	As at 31 December			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(in millions)			
(audited)	(audited)	(audited)	(audited)	
<b>Current assets</b>				
Monetary fund . . . . .	8,849.4	6,062.3	5,490.2	798.5
Notes receivable and accounts receivable . . . . .	2,097.9	2,801.1	3,551.1	516.5
Advance payments . . . . .	31.8	36.5	78.3	11.4
Other receivables . . . . .	5,454.4	8,742.1	6,012.5	874.5
Inventory . . . . .	275.6	1,079.8	3,665.1	533.1
Other current assets . . . . .	68.5	162.3	276.4	40.2
<b>Total current assets</b> . . . . .	<b>16,777.6</b>	<b>18,884.0</b>	<b>19,073.6</b>	<b>2,774.1</b>
<b>Non-current assets</b>				
Available-for-sale financial assets . . . . .	566.0	1,002.3	1,188.7	172.9
Long-term equity investment . . . . .	38.4	42.2	43.2	6.3
Investment real estate . . . . .	–	–	45.8	6.7
Fixed assets . . . . .	4,011.1	4,339.3	4,567.1	664.3
Construction in progress . . . . .	2,232.8	4,786.6	5,975.1	869.0
Intangible assets . . . . .	427.9	424.1	370.7	53.9
Goodwill . . . . .	–	324.3	324.3	47.2
Long-term deferred expenses . . . . .	41.5	11.6	17.8	2.6
Deferred income tax assets . . . . .	16.2	31.0	37.9	5.5
Other non-current assets . . . . .	12,852.9	12,859.3	12,949.8	1,883.5
<b>Total non-current assets</b> . . . . .	<b>20,186.7</b>	<b>23,820.7</b>	<b>25,520.3</b>	<b>3,711.8</b>
<b>Total assets<sup>1</sup></b> . . . . .	<b>36,964.4</b>	<b>42,704.7</b>	<b>44,593.9</b>	<b>6,485.9</b>

<sup>1</sup> As at 31 December 2018, the Group's Public Interest Assets amounted to approximately RMB5.0 billion, representing approximately 11.3 per cent. of the Group's total assets.

	As at 31 December			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(audited)	(audited)	(audited)	(audited)
<i>(in millions)</i>				
<b>Current liabilities</b>				
Short-term loan . . . . .	2,366.4	652.0	942.0	137.0
Notes payable and accounts payable . . . . .	1,157.0	1,480.2	1,495.0	217.4
Advance receipts . . . . .	26.9	97.7	492.9	71.7
Employee benefits payable . . . . .	5.7	2.9	5.3	0.8
Taxes and fees payable . . . . .	213.2	249.3	322.0	46.8
Other payables . . . . .	680.5	2,849.4	1,514.5	220.3
Non-current liabilities due within one year . . . . .	1,910.0	1,262.9	4,013.2	583.7
Other current liabilities . . . . .	1,121.4	353.9	300.0	43.6
<b>Total current liabilities . . . . .</b>	<b>7,481.2</b>	<b>6,948.2</b>	<b>9,084.9</b>	<b>1,321.3</b>
<b>Non-current liabilities</b>				
Long-term loan . . . . .	3,678.3	6,782.0	6,673.1	970.6
Debts payable . . . . .	5,744.8	7,551.2	7,119.8	1,035.5
Long-term payables . . . . .	680.0	628.0	574.6	83.6
Deferred income . . . . .	14.4	51.3	252.0	36.7
Deferred income tax liabilities . . . . .	—	—	3.7	0.5
<b>Total non-current liabilities . . . . .</b>	<b>10,117.5</b>	<b>15,012.5</b>	<b>14,623.3</b>	<b>2,126.9</b>
<b>Total liabilities . . . . .</b>	<b>17,598.7</b>	<b>21,960.7</b>	<b>23,708.2</b>	<b>3,448.2</b>
<b>Owner's equity</b>				
Paid-in capital . . . . .	14,345.2	14,345.2	14,345.2	2,086.4
Other equity instruments . . . . .	—	1,200.0	1,200.0	174.5
Capital reserve . . . . .	3,570.7	3,590.4	3,590.4	522.2
Other comprehensive income . . . . .	—	—	11.2	1.6
Surplus reserve . . . . .	124.7	149.0	171.7	25.0
Undistributed profit . . . . .	1,170.4	1,285.7	1,358.4	197.6
Total equity attributable to owners of parent company	19,210.9	20,570.3	20,676.8	3,007.3
Minority shareholder's interest . . . . .	154.7	173.8	208.9	30.4
<b>Total owner's equity . . . . .</b>	<b>19,365.7</b>	<b>20,744.0</b>	<b>20,885.7</b>	<b>3,037.7</b>
<b>Total liabilities and owner's equity . . . . .</b>	<b>36,964.4</b>	<b>42,704.7</b>	<b>44,593.9</b>	<b>6,485.9</b>

## Summary Consolidated Income Statement Data

	For the year ended 31 December			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	<i>(in millions)</i>			
	(audited)	(audited)	(audited)	(audited)
Operating incomes . . . . .	1,537.7	2,121.1	2,405.9	349.9
<b>Total operating incomes . . . . .</b>	<b>1,537.7</b>	<b>2,121.1</b>	<b>2,405.9</b>	<b>349.9</b>
Operating costs . . . . .	(1,352.6)	(1,922.6)	(2,258.6)	(328.5)
Taxes and surcharges . . . . .	(21.9)	(26.3)	(23.9)	(3.5)
Sales expenses . . . . .	(25.0)	(35.6)	(45.4)	(6.6)
Management expenses . . . . .	(140.0)	(173.8)	(196.5)	(28.6)
Financial expenses . . . . .	(27.2)	(6.1)	(29.7)	(4.3)
Asset impairment losses . . . . .	(61.8)	(59.5)	(4.8)	(0.7)
<b>Total operating costs . . . . .</b>	<b>(1,628.5)</b>	<b>(2,223.9)</b>	<b>(2,558.8)</b>	<b>(372.2)</b>
Other income . . . . .	–	246.6	248.2	36.1
Investment revenues . . . . .	52.1	57.4	60.6	8.8
Asset disposal income . . . . .	(1.7)	(0.6)	31.9	4.6
<b>Operating profits . . . . .</b>	<b>(40.4)</b>	<b>200.7</b>	<b>187.8</b>	<b>27.3</b>
Non-operating incomes . . . . .	274.0	8.1	1.6	0.2
Non-operating expenses . . . . .	(1.6)	(7.6)	(4.3)	(0.6)
<b>Total profits . . . . .</b>	<b>232.0</b>	<b>201.1</b>	<b>185.1</b>	<b>26.9</b>
Income tax expenses . . . . .	(13.0)	(33.3)	(42.6)	(6.2)
<b>Net profits . . . . .</b>	<b>219.0</b>	<b>167.8</b>	<b>142.5</b>	<b>20.7</b>
Net profit attributable to shareholders of the parent company . . . . .	230.0	139.6	101.5	14.8
Minority shareholders' profit or loss . . . . .	(11.0)	28.2	41.0	6.0
<b>Total comprehensive incomes . . . . .</b>	<b>219.0</b>	<b>167.8</b>	<b>142.5</b>	<b>20.7</b>
Total comprehensive incomes attributable to owners of parent company . . . . .	230.0	139.6	101.5	14.8
Total comprehensive incomes attributable to minority shareholder . . . . .	(11.0)	28.2	41.0	6.0

## Summary Consolidated Cash Flow Statement Data

	For the year ended 31 December			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	<i>(in millions)</i>			
	(audited)	(audited)	(audited)	(audited)
Net cash flow from operating activities . . . . .	526.6	337.9	281.1	40.9
Net cash flow from investing activities . . . . .	(1,041.5)	(2,247.7)	(127.0)	(18.5)
Net cash flow from financing activities . . . . .	3,629.9	2,997.9	(681.6)	(99.1)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,115.0</b>	<b>1,088.2</b>	<b>(527.5)</b>	<b>(76.7)</b>
Opening balances of cash and cash equivalents . . . . .	1,813.6	4,928.7	6,016.8	875.1
<b>Closing balances of cash and cash equivalents . . . . .</b>	<b>4,928.7</b>	<b>6,016.8</b>	<b>5,489.4</b>	<b>798.4</b>

## Other Financial Data

The following table sets forth certain other financial data of the Group as at the dates and for the periods indicated.

	As at and for the year ended 31 December		
	2016	2017	2018
	<i>(RMB in millions, except percentages)</i>		
EBITDA <sup>(1)</sup> . . . . .	493.1	481.2	403.3
EBITDA to total interest expense ratio . . . . .	0.4x	0.4x	0.8x
Ratio of total debt to EBITDA . . . . .	48.1x	45.6x	43.6x

### Notes:

- (1) EBITDA for any period is calculated as net profit, adding back taxation, finance costs, depreciation and amortisation. EBITDA is not a standard measure under PRC GAAP or 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, profit or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, the Group believes that investors should consider, among other things, the components of EBITDA such as selling and distribution costs and the amount by which EBITDA exceeds capital expenditures and other charges. EBITDA has been included because the Group believes it is a useful supplement to cash flow data as a measure of the Group's performance and the Group's ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented in this Offering Circular may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition. The following table reconciles the Group's EBITDA to the Group's profit for the period, which is the most directly comparable PRC GAAP measure:

	As at and for the year ended 31 December		
	2016	2017	2018
	<i>(RMB in millions)</i>		
<b>Net Profit</b> . . . . .	<b>219.0</b>	<b>167.8</b>	<b>142.5</b>
Adjustments:			
Add:			
Taxation . . . . .	13.0	33.3	42.6
Finance costs . . . . .	30.1	75.9	50.3
Depreciation . . . . .	226.2	198.6	163.6
Amortisation . . . . .	4.8	5.5	4.3
<b>EBITDA</b> . . . . .	<b>493.1</b>	<b>481.2</b>	<b>403.3</b>

## THE OFFERING

The following is a brief summary of the offering and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the Bonds” and “Summary of Provisions Relating to the Bonds in Global Form” shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see “Terms and Conditions of the Bonds” in this Offering Circular.

<b>Issuer</b> . . . . .	Huai’an Traffic Holding Co., Ltd. (淮安市交通控股有限公司).
<b>The Bonds</b> . . . . .	U.S.\$300,000,000 6.0 per cent. Bonds due 2022.
<b>Issue Price</b> . . . . .	The Bonds will be issued at 99.46 per cent. of their principal amount.
<b>Form and Denomination</b> . . . . .	The Bonds will be issued in registered form in the specified denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Issue Date</b> . . . . .	19 September 2019.
<b>Interest</b> . . . . .	The Bonds will bear interest on their outstanding principal amount from and including 19 September 2019, at the rate of 6.0 per cent. per annum, payable semi-annually in arrear in equal instalments on 19 March and 19 September in each year, commencing on 19 March 2020.
<b>Maturity Date</b> . . . . .	19 September 2022.
<b>Status of the Bonds</b> . . . . .	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) ( <i>Negative Pledge</i> ) of the Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) ( <i>Negative Pledge</i> ) of the Terms and Conditions, rank at least equally with all its other present and future unsecured and unsubordinated obligations.
<b>Negative Pledge</b> . . . . .	The Bonds will contain a negative pledge provision as further described in Condition 4(a) ( <i>Negative Pledge</i> ) of the Terms and Conditions.
<b>Use of Proceeds</b> . . . . .	The net proceeds of the issue of the Bonds will be used for refinancing certain offshore existing indebtedness. See “ <i>Use of Proceeds</i> ”.
<b>Events of Default</b> . . . . .	The Bonds will contain certain events of default as further described in Condition 9 ( <i>Events of Default</i> ) of the Terms and Conditions.
<b>Cross Default</b> . . . . .	The Bonds will contain a cross default provision. See Condition 9(c) ( <i>Cross-Default</i> ) of the Terms and Conditions.

**Taxation** . . . . . All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC at a rate up to and including the aggregate rate applicable on 12 September 2019 (the “**Applicable Rate**”), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding by or within the PRC in excess of the Applicable Rate, the Issuer shall pay such additional amounts (the “**Additional Tax Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in the circumstances set out in Condition 8 (*Taxation*) of the Terms and Conditions.

**Final Redemption.** . . . . . Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

**Redemption for Relevant Events** . . . . . Following the occurrence of a Relevant Event, the Holder of any Bond will have the right, at such Holder’s option, to require the Issuer to redeem all, but not some only, of such Holder’s Bonds at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together in each case with accrued interest, as further described in Condition 6(c) (*Redemption for Relevant Events*) of the Terms and Conditions.

A “**Change of Control**” occurs when:

- (i) the Huai’an Municipal Government ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; or
- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer’s assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity.

**Redemption for Taxation**

**Reasons** . . . . .

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent at their principal amount (together with any interest accrued up to (but excluding) the date fixed for redemption) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:

- (i) the Issuer has or will become obliged to pay Additional Tax Amounts (as provided or referred to in the Terms and Conditions) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 12 September 2019; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

**provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due, as further described in Condition 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions.

**Further Issues** . . . . .

The Issuer is at liberty from time to time, without the consent of the Bondholders, to create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and the timing for complying with the Registration Conditions and making of the Foreign Debt Registration and the NDRC Post-issue Filing) and so that the same shall be consolidated and form a single series with the outstanding Bonds, as further described in Condition 15 (*Further Issues*) of the Terms and Conditions.

**Trustee** . . . . .

The Bank of New York Mellon, London Branch.

**Principal Paying Agent**. . . . .

The Bank of New York Mellon, London Branch.

**Registrar and Transfer Agent**.

The Bank of New York Mellon SA/NV, Luxembourg Branch.

<b>Clearing Systems . . . . .</b>	The Bonds will be represented initially by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depository for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this Offering Circular, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
<b>Clearance and Settlement . . . .</b>	The Bonds have been accepted for clearance through Euroclear and Clearstream with Common Code 201521483 and the ISIN of the Bonds is XS2015214831.
<b>Notices and Payment . . . . .</b>	So long as the Global Certificate is held on behalf of Euroclear and Clearstream, any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Terms and Conditions and shall be deemed to have been given on the date of delivery to such clearing system.
<b>Governing Law . . . . .</b>	English law.
<b>Jurisdiction . . . . .</b>	Exclusive jurisdiction of Hong Kong courts.
<b>Listing . . . . .</b>	Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 20 September 2019. A confirmation of the eligibility for the listing of the Bonds has been received from the Hong Kong Stock Exchange.
<b>Selling Restrictions . . . . .</b>	The Bonds will not be registered under the Securities Act or under any state securities laws of the United States, are being offered only outside the United States in reliance of Regulation S of the Securities Act and will be subject to customary restrictions on transfer and resale. See “ <i>Subscription and Sale</i> ”.
<b>Ratings . . . . .</b>	Fitch has assigned a corporate rating of “BB” with a stable outlook to the Issuer. The Bonds are expected to be rated “BB” by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Legal Entity Identifier . . . . .</b>	3003002ZFAJ1WEB2BL96.

## RISK FACTORS

*An investment in the Bonds is subject to a number of risks. Investors should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, before deciding to invest in the Bonds. The following describes some of the significant risks relating to the Group, its business, the market in which the Group operates and the value of the Bonds. Some risks may be unknown to the Issuer and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations or prospects of the Issuer and the Group or the value of the Bonds. The Issuer believes that the risk factors described below represent the principal risks inherent in investing in the Bonds, but the ability of the Issuer to pay interest, principal or other amounts on or in connection with any Bonds may be affected by some factors that may not be considered as significant risks by the Issuer on information currently available to them or which they are currently unable to anticipate. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.*

*The Issuer does not represent that the statements below regarding the risk factors of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **RISKS RELATING TO THE GROUP'S BUSINESS**

#### **The Group's performance is largely dependent on monetary policies and public spending on infrastructure construction of the Huai'an Municipal Government.**

The Group is the sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government. The Group's businesses are to a large extent funded by the Huai'an Municipal Government. Due to the nature of the Group's businesses, its business and financial performance may be materially affected by changes in public budget of the Huai'an Municipal Government, especially by a significant reduction in the Huai'an Municipal Government's public spending.

There are a number of key factors affecting the nature, scale, location and timing of the Huai'an Municipal Government's public investment plans in infrastructure construction. Aside from the PRC central government's policies and priorities relating to the development of different regions across the country, two of the key factors are the Huai'an Municipal Government's fiscal and monetary policies, including the availability of credit and funding for projects, as well as the Huai'an Municipal Government's public investment plans in infrastructure construction. The above two factors may also be directly affected by changes in the economic conditions in the PRC generally and in Huai'an particularly. In recent years, there has been a slowdown in the growth of China's economic development as evidenced by a decrease in PRC's GDP annual growth rate. According to the National Statistics Bureau of the PRC (中華人民共和國國家統計局, the "NSB"), the annual growth rate of China's GDP slowed down in the recent years from 6.9 per cent. in 2015 to 6.6 per cent. in 2018. Huai'an has similarly experienced steady but slowing economic growth in recent years. According to the Huai'an Municipal Statistics Bureau (淮安市統計局), the annual growth rate of GDP in Huai'an slowed down in the recent years from 10.3 per cent. in 2015 to 6.5 per cent. in 2018. There can be no assurance that the level of economic development in Huai'an will continue to grow at the rates seen in recent years, and it is unclear how the economic development in Huai'an will be affected by a perceivable slowdown in the growth of the PRC economy. Any sustained slowdown or material deterioration in China's overall economic conditions may increase the vulnerability of the economic conditions of Huai'an and the fiscal conditions of the Huai'an Municipal Government, which may in turn materially and adversely affect the Huai'an Municipal Government's public investment plans in infrastructure construction. If the Huai'an

Municipal Government decreases or intends to decrease public spending on infrastructure construction, the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

**A reduction or discontinuance of government support could materially and adversely affect the Group's business, financial condition and results of operations.**

In light of the strategic importance of the Group's business and operations to Huai'an, the Group has received substantial support from the Huai'an Municipal Government with respect to industrial restructuring, resource allocation, and policies relating to investment and financing activities, which is critical to the Group's business operation. The government support received by the Group primarily includes favourable policies, business opportunities, capital contribution, government subsidies and grants. However, there is no assurance that the Huai'an Municipal Government will continue to provide support to the Group or that the existing or other types of government support will not be adjusted or terminated due to changes in government policies or otherwise. If any favourable incentive or government support which is currently available to the Group is reduced or discontinued in the future, the Group's business, financial condition and results of operations would be materially and adversely affected.

**Any adverse change in the economic development, social conditions, government policies or natural conditions of Huai'an could materially and adversely affect the Group's business, financial condition, results of operations and prospects.**

For the three years ended 31 December 2016, 2017 and 2018, revenue derived from the Group's subsidiaries registered in Huai'an accounted for substantially all of the Group's revenue. In light of the concentration of the Group's businesses in Huai'an, the Group is exposed to risks associated with such concentration. Any economic slowdown in Huai'an could reduce the demand for the Group's infrastructure construction, transportation logistics operations, commercial trading business as well as the services rendered by the Group's tourism business. Furthermore, while the Huai'an Municipal Government has adopted preferential policies for a number of industries in which the Group conducts a significant part of its business and has provided financial support to the Group in various forms, it is not guaranteed that the Huai'an Municipal Government will not change or terminate such preferential policies or financial support. If there is any adverse change in the economic development, social conditions or government policies in Huai'an, the Group's business, financial conditions, results of operations and prospects could be materially and adversely affected.

**The Group faces risks associated with contracting with public bodies.**

As the sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government, the Group collaborates with various governmental authorities and their controlled entities in Huai'an and other regions in the PRC. Although the Group believes that it currently maintains close working relationships with those governmental authorities and entities relevant to its businesses, there can be no assurance that these relationships will continue to be maintained on good terms in the future. Local governments and the government-controlled entities with which the Group collaborates may (i) have economic or business interests or consideration that are inconsistent with those of the Group's; (ii) take actions contrary to the Group's requests, policies or objectives; (iii) be unable or unwilling to fulfil their obligations; (iv) have financial difficulties; (v) have disputes with the Group as to contractual terms or other matters; or (vi) place higher priority in public interest over the Group's profitability. If there are any material disagreements between the Group and any governmental authorities or any of the government-controlled entities, there can be no assurance that the Group will be able to successfully resolve them in a timely manner.

In addition, disputes with public bodies may last for considerably longer periods of time than those with private sector counterparties, and payments from the public bodies may be delayed as a result. Any of these may materially and adversely affect the business relationships between the Group and the relevant governmental authorities and/or governmental entities, which may in turn materially and adversely affect the Group's business, financial condition, results of operations and prospects.

**PRC regulations on the administration of the financing platform and fiscal debts of local governments will have a material impact on the Group's business model and sources of financing.**

The PRC government has in recent years issued multiple regulations intended to restrict the ability of local governments to use state-owned enterprises to incur debt that should be directly incurred by government bodies. These regulations include: the Notice on Strengthening the Administration of Local Government Financing Vehicles (關於加強地方政府融資平臺公司管理有關問題的通知) (“**Circular 19**”) in June 2010 and the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (Guo Fa [2014] No. 43)(關於加強地方政府性債務管理的意見(國發[2014]43號)) (“**Circular 43**”) in September 2014 released by the State Council, the Notice on Further Regulating Issuance of Bonds by Local Government Financing Vehicles (關於進一步規範地方政府投融資平臺公司發行債券行為有關問題的通知) released by the NDRC issued in November 2010 (“**Circular 2881**”), the Circular on Further Regulating the Debt Financing Behaviours of Local Government (Cai Yu [2017] No. 50)(關於進一步規範地方政府舉債融資行為的通知(財預[2017]50號)) (“**Circular 50**”) jointly issued by the MOF, the NDRC, the Ministry of Justice of the PRC, the People's Bank of China (“**PBOC**”), the CBRC and the China Securities Regulatory Commission in April 2017, the Circular on Firmly Curbing Local Governments' Illegal Financing Activities in the Name of Government Procurement of Services (Cai Yu [2017] No. 87)(關於堅決制止地方以政府購買服務名義違法違規融資的通知(財預[2017]87號)) (“**Circular 87**”) issued by the MOF in May 2017, the Notice of the Ministry of Finance on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (Cai Jin [2018] No. 23)(財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知(財金[2018]23號)) (“**Circular 23**”) in March 2018, the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (Fa Gai Wai Zi [2018] No. 706)(國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知(發改外資[2018]706號)) (“**Circular 706**”) jointly issued by the NDRC and the MOF in May 2018 and the Guiding Opinion on Strengthening the Asset and Liability Constraints of State-Owned Enterprises (中共中央辦公廳、國務院辦公廳《關於加強國有企業資產負債約束的指導意見》) jointly issued by the General Office of the Central Committee of the Communist Party of China and the State Council in September 2018 (the “**Joint Opinion**”) (Circular 43, Circular 50, Circular 87, Circular 23, Circular 706 and the Joint Opinion, together, the “**Debt Control Circulars**”).

Circular 706 requires companies that plan to borrow medium and long-term foreign debt to establish a sound and standardised corporate governance structure, management decision-making mechanism and financial management system. It further requires that the assets owned by such companies should be of good quality and clear ownership and it is forbidden to include public interest assets in corporate assets. See “– Risks relating to the Bonds – The PRC government has no obligations under the Bonds” and “– Risks relating to the Bonds – Any public interest assets of the Group should not be taken into account when the Group's business, financial condition, results of operations and prospects are assessed” for further information.

According to Circular 2881, the financing vehicles of a local government, such as the Issuer, must rely on their internal operating cash flow to finance the payment of more than 70 per cent. of the cash requirements for repaying their corporate bonds issued in the PRC. If revenue from the construction of public interest projects represents more than 30 per cent. of their total revenue, the financing vehicles should provide the authorities that review the application of corporate bonds issuance with information relating to the balance of the local government's debts and other detailed information to demonstrate their repayment ability. In addition, it reinforces the requirements under Circular 19 which prohibit local

governments from mortgaging state-owned assets or otherwise creating security interests over public funds to secure the debts of its financing vehicles, directly or indirectly. As of the date of this Offering Circular, the Group has not received any notice from any governmental authority that it is not in compliance with Circular 2881.

Circular 50 reaffirmed the Circular 43 policy that local governments are not permitted to use any means other than bonds for debt financing and are prohibited from requesting or ordering enterprises to issue debt on their behalf. Circular 87 required local governments and their departments shall not take advantage of or make up a contract for the government procurement of services in such a manner that conceals an underlying objective of raising funds for any construction project, and shall not make up a contract for accounts payable (receivable) by any means or enter into such a contract beyond their respective authority in an attempt to help financing platforms and other types of enterprises raise funds. Circular 23 and Circular 706 established policies for foreign debt issuance including exclusions on public assets being listed as enterprise assets and restrictions on making disclosure in offering circulars that imply government endorsement of the issuance or an association with the government's credit. The Joint Opinion, consistent with Circular 43 and Circular 50, bans local governments from engaging in "disguised" borrowing by using state-owned enterprises to issue corporate debt on their behalf. For further details on the Debt Control Circulars see "*PRC Laws and Regulations*".

The Group believes that the PRC government will continue to implement the Debt Control Circulars to control local government debts. Accordingly, the Group should rely on the cash flow generated from its operations and external borrowings for financing its operating activities and to satisfy its cash needs for servicing its outstanding indebtedness. Pursuant to the terms of the Bonds and as required by the Debt Control Circulars, neither the Huai'an Municipal Government nor any other PRC governmental entity has any obligation to repay any amount under the Bonds and will not provide a guarantee of any kind for the Bonds. The Bonds are solely to be repaid by the Issuer, and the obligations of the Issuer under the Bonds or the Trust Deed shall solely be fulfilled by the Issuer as independent legal persons. The liability of the Huai'an Municipal Government is limited to its equity contribution in the Issuer. If the Issuer does not fulfil its obligations under the Bonds and the Trust Deed, the Bondholders will only have recourse against the Issuer, and not the Huai'an Municipal Government or any other PRC governmental entity.

The PRC government may continue to release new policies or amend existing regulations to control the increase in local governmental debts in China. There is no assurance that the Group's financing and business model and also its indebtedness will not be materially affected by future changes in the regulatory regime concerning the financing platforms of local governments in response to such regulations.

**The Huai'an Municipal Government can exert significant influence on the Group, and could cause the Group to make certain decisions or modify its scope of activities, or impose on the Group new obligations, that may not be in the Group's best interests and may not aim to maximise the Group's profits.**

The Group is wholly owned by the Huai'an Municipal Government and, accordingly, the Huai'an Municipal Government is able to significantly influence the Group's major business decisions and strategies, including the scope of the Group's activities, investment decisions and dividend policy. There is no assurance that the Huai'an Municipal Government would always take actions that are in the Group's best interests or that aim to maximise the Group's profits. For example, the Huai'an Municipal Government could use its ability to influence the Group's business and strategy in a manner beneficial to the Jiangsu Province as a whole, which may not necessarily be in the Group's best interests. The Huai'an Municipal Government could also change its policies, plans, preferences, views, expectations, projections, forecasts and opinions, as a result of changes in the PRC's economic, political and social environment, and its projections of population and employment growth. Any amendment, modification

or repeal of existing policies of the Huai'an Municipal Government could result in a modification of the existing regulatory regime which in turn may adversely affect the Group's business, financial condition and results of operations.

**The Group's business operations require substantial capital.**

The Group's business operations require substantial capital to carry out its construction plans. For the years ended 31 December 2016, 2017 and 2018, the Group made capital expenditures of RMB506.2 million, RMB805.2 million and RMB143.9 million, respectively. A significant portion of the capital demand of the Group is satisfied through fiscal funding from the Huai'an Municipal Government in the form of subsidies and asset injections. The Group generally formulates and updates its capital expenditure and construction plans on an annual basis and reports its plans to the Huai'an Municipal Government. The Huai'an Municipal Government takes into consideration these plans when it determines the government budget for the subsequent financial year.

There can be no assurance that the capital expenditure and construction plans submitted by the Group will be approved by the Huai'an Municipal Government. The Group may need to adjust its plans to align with the overall urban strategies and plans of the Huai'an Municipal Government. Otherwise, it will need to resort to alternative funding to meet its capital needs.

In addition, the Group's capital expenditure and construction plans are affected by a number of factors, such as the requirements of the projects, the Group's ability to generate sufficient cash flows from its operations and the availability and costs of external financing. Any material changes in these factors, which may be beyond the Group's control, may create capital shortfall after the Huai'an Municipal Government approves and grants the funding based on the Group's original capital expenditure and construction plans. Delays and cost overruns inherent in the businesses in which the Group operates may also cause such capital shortfall. In such cases, the Group's reliance on external financings and its internal capital resources may increase.

For the years ending 31 December 2016, 2017 and 2018, the net cash flows of the Group from operating activities are RMB526.6 million, RMB337.9 million, and RMB281.1 million, respectively. The ordinary operating cash flow of the Group is rather volatile and will to a certain extent affect its resilience to risk. A reduced cashflow and liquidity of the Group may negatively affect its business, financial condition and results of operations.

The Group from time to time needs to seek external financing from third parties to fill the capital shortfall if government funding is insufficient and/or to satisfy its working capital requirement. As at 31 December 2018, the Group had total credit facilities of RMB13.0 billion, of which RMB4.4 billion had not been utilised. The Group's ability to access and raise sufficient funds through different sources depends upon a number of factors, such as China's economic condition, prevailing conditions in capital markets, regulatory requirements, the Group's financial condition, and costs of financing including changes in interest rates. Some of these factors may be beyond the Group's control. Further, the promulgation of Circular 43 may adversely affect the Group's ability to raise funds. If the Group fails to raise sufficient funds in a timely manner or fails to obtain external financing on commercially acceptable terms, it may not be able to fund in full the capital expenditure necessary to expand its production facilities, upgrade or purchase additional facilities and equipment or implement its business strategies, which may in turn have a material and adverse impact on the Group's business, financial condition, results of operations and prospects.

**Significant indebtedness may restrict the Group's business activities and increase the Group's exposure to various operational risks.**

The Group relies on external borrowings to satisfy a portion of its capital requirements in addition to the cash flow generated by its operating activities and therefore the Group has significant outstanding indebtedness. As at 31 December 2018, the Group had total long-term indebtedness of RMB14,367.5 million, representing 60.6 per cent. of its total liabilities. Substantial indebtedness could have a number of impacts on the Group's businesses. For example, it could:

- require the Group to dedicate part of its operating cash flow to service its indebtedness before it receives the government funding increase the Group's finance costs, thus affecting the overall profits of the Group;
- limit the Group's flexibility in planning for or responding to changes in the Group's businesses and the industries in which it operates;
- limit, together with the financial and other restrictive covenants of the Group's indebtedness, among other things, the Group's ability to borrow additional funds; and
- increase the Group's vulnerability to adverse general economic and industry conditions.

In 2016, 2017 and 2018, financial expenses of the Group, which primarily represent the Group's interest expenses, amounted to RMB27.2 million, RMB6.1 million and RMB29.7 million, respectively. Some of the Group's borrowings are secured by encumbrances created over a number of its assets such as mortgages over land use rights and buildings, pledges over equity stocks and account receivables. As at 31 December 2018, the total value of Group's secured loans amounted to approximately RMB3,229.7 million, not including the value of pledges. These third-party security rights may limit the Group's use of the relevant assets and adversely affect its operations efficiency. In the future, as the Group's operations continue to expand and its capital requirements continue to grow, the Group may face increasing pressure to control its external borrowings. In the event that the Group fails to keep its indebtedness under a certain level, the funds available for various other business purposes may become limited, and its business, financial condition and results of operations may be materially and adversely affected.

In addition, certain loan agreements to which the Group's subsidiaries are parties contain restrictive covenants, which prevent or limit such subsidiaries' ability from engaging in certain activities, such as incurring additional indebtedness or declaring and making distributions. If the relevant subsidiaries fail to comply with the restrictions and covenants, there could be a default under the terms of those loan agreements and financial liabilities could arise. Furthermore, some of the Group's loan agreements contain cross-acceleration or cross-default provisions. A default under one loan may cause the acceleration of repayment of other debt, or result in a default under the other loan agreements of the subsidiaries. If any of these events occur, there can be no assurance that the Group's assets and cash flow would be sufficient to repay in full all of its indebtedness which has become due and payable, or that it would be able to find alternative financing.

**The Group's business and results of operations may be susceptible to material fluctuations in interest rates.**

The Group has significant outstanding indebtedness. The interest on a significant portion of such indebtedness accrue based on interest rates that benchmark the one-year lending rate published by PBOC. As such, any material fluctuation in the benchmark lending rate may have a material impact on the Group's interest payables under its bank loans and in turn affect its results of operations. In recent years, the PRC government from time to time adjusted interest rates as an instrument to control the level of liquidity in the market and the PRC economy. In April 2006, the PBOC raised the benchmark one-

year lending rate from 5.58 per cent. to 5.85 per cent. and in August 2006 further increased it to 6.12 per cent. In 2007, the PBOC increased the one-year lending rate six times from 6.12 per cent. to a high of 7.47 per cent. in December 2007.

Since the outbreak of the global financial crisis in 2008, the PRC government started to lower the benchmark lending rate to encourage borrowings and steam the recovery of the country's economy. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47 per cent. to 5.31 per cent. in December 2008, which remained unchanged until September 2010. The one year lending rate increased to 5.81 per cent. as at 26 December 2010, increased to 6.06 per cent. effective from 9 February 2011, increased to 6.31 per cent. effective from 6 April 2011 and increased to 6.56 per cent. from 7 July 2011. This easing policy was changed in 2012 in light of the overheating property market in the PRC. The one-year benchmark interest rate decreased by 25 basis points in June 2012 and decreased again by 31 basis points in July 2012. In November 2014, the PBOC further decreased the benchmark one-year lending rate by 40 basis points to 5.6 per cent. and decreased the benchmark one-year saving rate by 25 basis points to 2.75 per cent. Although the Group's business and financial condition may benefit from the low prevailing interest rates in the market, there is no assurance that this low-interest environment will continue. Any increase in benchmark lending rates by PBOC in the future will increase the Group's financing costs and adversely affect the Group's profitability, financial condition and results of operations.

**There are risks associated with any material acquisitions by the Group.**

The Group expands its business by both organic growths and acquiring or investing in other companies. During the course of these acquisition and investment transactions, the Group conducts due diligence investigations with respect to the target companies, but the due diligence with respect to any acquisition or investment opportunity may not reveal all relevant facts that are necessary or useful in evaluating such opportunity, which could subject the Group to unknown financial and legal liabilities. When determining the price for any acquisition or investment, the Group considers various factors, including the quality of the target business, estimated costs associated with the acquisition or investment, and the management of the target business, prevailing market conditions and intensity of competition in the local markets. The Group also faces various post-completion issues arising from the acquisition or the investment, such as integration of the business into its operations and allocation of internal resources to successfully operate the acquired business. There can be no assurance that the Group will be able to address these issues effectively. In addition, any major acquisition or investment transaction may require significant management attention and financial resources of the Group or even result in significant indebtedness for the Group, depending on the relevant financing plan for the transaction. Any material decrease in its financial resources may limit the Group's ordinary operating activities and increase pressure on its liquidity, and in turn could adversely affect its business, financial condition and results of operations.

As at the date of this Offering Circular, the Group had acquired or invested in a number of significant businesses and assets, some of which have not started to generate the optimal level of income for the Group. There can be no assurance that these businesses and assets will start to contribute to the Group with the expected returns when the acquisition or investment was made. In addition, the Group is unable to predict whether there will be any target suitable for acquisition or when any acquisition opportunities could arise. In the event that the Group enters into any letter of intent or agreement for any material acquisition after the issue of the Bonds, the market price and the trading volume of the Bonds may be adversely affected.

**The Group may not successfully manage its growth.**

The Group is comprised of a large number of companies operating in a variety of industries. As the Group continues to grow, its operations will become more widespread and complex. It might become increasingly challenging for the Group to direct and monitor the day-to-day operations of its different

business segments, to prevent and detect fraud and to protect its assets. To meet up to this challenge, the Group must continue to improve its managerial, technical, operational and other resources, and to implement an effective management and internal control system that emphasises proper authorisations, reliability and accountability of financial reporting, imposes financial and internal control disciplines on subsidiary and associate companies, and creates value-focused incentives for the management. In addition, in order to fund the Group's ongoing operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. There can be no assurance that the Group will not experience issues such as capacity and capital constraints, construction delays, operational difficulties at new facilities or difficulties in upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its revenue base and to maintain the profitability of the Group. There can be no assurance that such expansion plans will not adversely affect the Group's existing operations and thereby may have a material adverse effect on its business, financial condition, operating results and future prospects and could cause the price of the Bonds to fall.

In particular, the Group has historically been focusing on transportation infrastructure development. Over the years it has diversified its businesses into transportation logistics, commercial trading, and other businesses, including restaurant operations, tourism and advertising. The Group intends to continue to develop these new businesses while maintaining sustainable growth of its core businesses as one of its future strategies. Whether the Group could successfully implement this strategy, to some extent, depends on the Group's ability to identify attractive projects, obtain required approvals from relevant regulatory authorities in the PRC, access financing options on commercially acceptable terms and maintain close relationship with various governmental authorities and agencies. The success of handling the foregoing matters with respect to any particular project cannot be assured. There can be no assurance that the Group is able to successfully implement its strategy, manage or integrate newly-acquired operations with its existing operations. Failure to implement the Group's growth strategy could have a material adverse impact on its business, financial condition and results of operations.

**The insurance coverage of the Group may not adequately protect it against all operating risks.**

The Group faces various operational risks in connection with its business, including but not limited to:

- production interruptions caused by operational errors, electricity outages, raw material shortages, equipment failure and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- work-related personal injuries;
- on-site production accidents;
- credit risks relating to the performance of customers or other contractual third parties;
- disruption in the global capital markets and the economy in general;
- loss on investments;
- environmental or industrial accidents; and
- catastrophic events such as fires, earthquakes, explosions, floods, collapse of mine or other natural disasters.

To manage operating risks, the Group maintains insurance policies that provide different types of risk coverage which it believes to be consistent with the relevant industry and business practice in China or elsewhere. However, claims under the insurance policies may not be honoured fully or on time, or the insurance coverage may not be sufficient to cover costs associated with accidents incurred in the Group's operations due to the above-mentioned operational risks. To the extent that any of the Group companies suffers loss or damage that is not covered by insurance or that exceeds the limit of its insurance coverage, the Group's results of operations and cash flow may be materially and adversely affected.

**The Group is subject to various environmental, safety and health regulations in China and any failure to comply with such regulations may result in penalties, fines, governmental sanctions, proceedings or suspension or revocation of its licenses or permits.**

The Group is required to comply with extensive environmental, safety and health regulations in China. Failure to comply with such regulations may result in fines or suspension or revocation of the Group's licenses or permits to conduct its business. Given the volume and complexity of these regulations, compliance may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. There is no assurance that the Group will be able to comply with all applicable requirements or obtain all relevant approvals and permits on a timely basis or at all. As at the date of this Offering Circular, the Group has adopted a series of measures to address the government's requirements. The Group believes it has all permits, licenses, qualifications and other government authorisations necessary to conduct its business as specified in its business license and to use its properties in the manner described in this Offering Circular. However, there can be no assurance that these permits, licenses, qualifications and other authorisations will be renewed upon their expiration, or that the Group will continue to meet the standards imposed by the government. Further, government authorisations may be revoked if the operation fails to comply with the stipulated standards. Failure to obtain, maintain or renew relevant qualifications may have a material adverse impact on the Group's business, financial condition and results of operation. In addition, PRC laws and regulations are constantly evolving. There can be no assurance that the PRC government or the local government will not impose additional or stricter laws or regulations, which may increase compliance costs of the Group.

**The Group is subject to litigation risks and may face significant liabilities as a result.**

The Group may from time to time be involved in disputes with governmental entities, incumbent residents, contractors, suppliers, employees and other third party service providers during the course of its daily operations. Claims may be brought against any of the Group companies for defective or incomplete work, personal injuries, damage to or destruction of property, breaches of warranty, delay in delivery and late completion of the project. If any of the Group companies were found to be liable for any of the project claims against it, its business, financial condition and results of operations could be negatively impacted to the extent the claims were not sufficiently covered by its insurance coverage.

Claims brought by the Group against project contractors may include claims for additional costs incurred in excess of current contract provisions arising out of project delays and changes in the initial scope of work. In addition, both claims brought against the Group and by it, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings. Amounts ultimately realised from claims by the Group could differ materially from the balances included in its financial statements, resulting in a charge against earnings to the extent profit has already been accrued on a project contract. Charges associated with claims brought against the Group and write downs associated with claims brought by the Group could have a material adverse impact on its financial condition, results of operations and cash flow.

**The Group depends on key management members and qualified personnel in a competitive market for skilled personnel. The Group's inability to attract and retain key personnel could adversely affect its ability to manage its business.**

The Group depends on the expertise of the principal members of its management team. The loss of key management members would adversely affect the Group's ability to manage its business. The Group also relies on its ability to identify, hire and retain qualified personnel for its different business lines.

The Group faces intense competition for qualified personnel from large state-owned enterprises, private local companies and international companies. While the Group attempts to provide competitive compensation packages to attract and retain key management members and qualified personnel, many of its competitors are likely to have greater resources and more experience than the Group, making it difficult for the Group to compete successfully for personnel retention and new hires.

The Group's failure to retain key management members and qualified personnel and maintain an adequate workforce could materially adversely affect its results of operations and prospects.

**The Group's businesses may be affected by an outbreak, or threatened outbreak, of any severe contagious disease and occurrence of natural disasters which may in turn significantly reduce demand for the Group's services and have an adverse effect on its financial condition and results of operations.**

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC are under the threat of earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, human swine flu (also known as Influenza A (H1N1)) or the recent cases of H7N9. For instance, two serious earthquakes hit Sichuan Province in May 2008 and April 2013 and resulted in significant loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 or the H7N9 avian flu, especially in the cities where the Group has operations, may result in material influence of the Group's related business, which in turn may adversely affect its financial condition and results of operations.

In particular, natural disasters, such as earthquakes, snowstorms, floods, volcanic eruptions or tsunami may disrupt or seriously affect air travel activity, hotel business and tourism industries. In 2010, a number of large-scale natural disasters occurred globally, such as earthquakes in Haiti, Mexico and Qinghai Province of China, and the volcanic eruption in Iceland in April 2010. In March 2011, Japan experienced a powerful earthquake, triggering a violent tsunami and seriously damaging the Fukushima nuclear power plant. All of these natural disasters adversely affected the aviation and leisure and tourism industry by reducing revenues and affecting travel behaviour. Any period of sustained disruption to the aviation and hotels and tourism industry may have an adverse effect on the Group's business, financial condition and results of operations.

**Historical consolidated financial information of the Group may not be indicative of its current or future results of operations.**

The historical financial information of the Group included in this Offering Circular is not indicative of its future financial results. This financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially if its future growth does not follow the historical trends for various reasons, including factors beyond its control, such as changes in economic environment, PRC environmental rules and regulations and the domestic and international competitive landscape of the industries in which the Group operates its businesses.

**There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to the PRC, its economy or the relevant industry.**

Facts, forecasts and other statistics in this offering relating to the PRC, its economy or the relevant industry in which the Group operates have been directly or indirectly derived from official government publications and certain other public industry sources and the Group can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by the Issuer, the Group, the Trustee, the Agents or any of its or their respective affiliates, employees, directors, agents or advisors, and, therefore, the Issuer, the Group, the Trustee, the Agents or any of its or their respective affiliates, employees, directors, agents or advisors makes no representation as to the completeness, accuracy or fairness of such facts, forecasts or other statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be incomplete, inaccurate or unfair or may not be comparable to statistics produced for other economies or the same or similar industries in other countries and should not be unduly relied upon. Furthermore, there is no assurance that they are 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, forecasts or other statistics.

**The Issuer published and may continue to publish periodical financial information in the PRC pursuant to applicable PRC regulatory rules. Investors should be cautious and not place undue reliance on the Issuer's unaudited and unreviewed financial information or the discussion of material financial trends in relation to the Issuer's unaudited and unreviewed financial information as at and for the six months ended 30 June 2019.**

This Offering Circular contains certain discussion of material financial trends as at and for the six months ended 30 June 2019. Such unaudited and unreviewed financial information as at and for the six months ended 30 June 2019 is not included in, and does not form a part of, this Offering Circular. The unaudited and unreviewed financial information as at and for the six months ended 30 June 2019 has not been audited or reviewed by Zhongxinghua. Such financial information and the discussion of material financial trends in relation to such financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when considering such material financial trends and evaluating the Issuer's financial condition and results of operations.

The Issuer from time to time issues corporate bonds and short-term financing bills in the domestic capital markets in the PRC. According to applicable PRC securities regulations on debt capital markets, the Issuer needs to publish its quarterly, half year and annual financial information to satisfy its continuing disclosure obligations relating to its corporate bonds and short-term financing bills. After the Bonds are issued, the Issuer is obligated by the terms of the Bonds, among others, to provide holders of the Bonds with its audited financial statements and certain unaudited but reviewed periodical financial statements. The quarterly and half year financial information published by the Issuer in the PRC is normally derived from the Group's management accounts and has not been audited or reviewed by independent auditors. As such, this financial information published in the PRC should not be referred to or relied upon by potential purchasers to provide the same quality of information associated with any audited information. The published financial information in the PRC may be adjusted or restated to address subsequent changes in accordance with the accounting standards, the Issuer's accounting policies and/or applicable laws and regulations affecting the Group's financial reporting or to reflect the subsequent comments given by independent auditors during the course of their audit or review. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date contained in the Group's management accounts subsequently published in the PRC and its audited or reviewed financial statements to be provided to holders of the Bonds. The Issuer

is not responsible to holders of the Bonds for the unaudited and unreviewed financial information from time to time published in the PRC and therefore investors should not place any reliance on any such financial information.

**The Group may not be able to fully detect money laundering and other illegal or improper activities in its business operations on a timely basis.**

The Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other relevant jurisdictions. The PRC's anti-money laundering law requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities.

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures in some cases have only been recently adopted and may not completely eliminate instances in which it may be used by other parties to engage in money laundering and other illegal activities. In the event that the Group fails to detect money laundering or other illegal or improper activities or fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze its assets or impose fines or other penalties on it. Any of these may materially and adversely affect its business reputation, financial condition and results of operations.

**The Group may not be able to detect and prevent fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties.**

The Group may be exposed to fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by governmental authorities, which in turn affects its reputation. Such misconduct could include:

- hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- intentionally concealing material facts, or failing to perform necessary due diligence procedures designed to identify potential risks, which are material to the Group in deciding whether to make investments or dispose of assets;
- improperly using or disclosing confidential information;
- misappropriation of funds;
- conducting transactions that exceed authorised limits;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products;
- engaging in unauthorised or excessive transactions to the detriment of the Group's customers;
- making or accepting the bribery activities;
- conducting any inside dealing; or
- otherwise not complying with applicable laws or the Group's internal policies and procedures.

The Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, such internal control procedures may be unable to identify all incidents of noncompliance or suspicious transactions in a timely manner if at all. Furthermore, it is not always

possible to detect and prevent fraud and other misconduct, and the precautions the Group takes to prevent and detect such activities may not be effective. There is no assurance that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result.

**The Group’s independent auditors, Zhongxinghua, were subject to investigations and have received adverse regulatory decisions, warnings and penalties issued by relevant PRC authorities in recent years.**

Zhongxinghua, the Group’s independent auditors, is a registered member of The Chinese Institute of Certified Public Accountants, and is supervised by relevant PRC regulatory agencies, including the MOF and the China Securities Regulatory Commission (the “CSRC”).

Zhongxinghua has been subject to investigations initiated by the National Association of Financial Market Institutional Investors (“NAFMII”) in July 2019 which led to the subsequent suspension of conducting debt financing-related business for 6 months. According to an announcement issued by NAFMII on 18 July 2019, Zhongxinghua was found to have major flaws in its audit of the 2017 financial results of Reward Science and Technology Industry Group (“Reward Group”), a chemicals and dairy conglomerate. In the announcement, NAFMII indicated that Zhongxinghua had failed to verify Reward Group’s actual assets, ignored the absence of substantial business and financial documents when issuing an unqualified opinion to Reward Group’s 2017 financial report, and subsequently failed to cooperate with NAFMII’s investigation. Reward Group had failed to repay RMB300 million of bonds in December 2018 although its financial reports indicated it had more than RMB4 billion of cash and cash equivalents. The default subsequently triggered approximately RMB6 billion in cross-defaults for Reward Group. Following the investigations, Zhongxinghua was suspended by NAFMII from conducting onshore debt financing-related business for 6 months, and the relevant certified public accountants were given a warning and deemed an inappropriate candidate for debt financing market for one year.

In addition, Zhongxinghua has also recently been subject to certain administrative and regulatory actions, where the relevant PRC regulatory agencies indicated that Zhongxinghua was deficient in performing its audit work, and that there were certain accounting irregularities which Zhongxinghua had failed to identify during the audit processes carried out for its client company. In December 2016 and 2017, the CSRC issued certain administrative supervision warning letters to Zhongxinghua. According to the Regulations by the CSRC on the review of the 2017 annual audit and evaluation agency (《證監會通報2017年度審計與評估機構檢查處理情況》) issued by the CSRC on 20 April 2018, Zhongxinghua and two certified public accountants were required to have supervision conversation with the CSRC. According to an announcement issued by the Shenzhen Stock Exchange on 26 May 2017, Zhongxinghua acted as the auditors for a silver-based carbon new materials company, where Zhongxinghua and its certified public accountants failed to inform the company on a timely manner that its audit work may not be completed by the annual report disclosure date. Such company was then unable to disclose the 2016 annual report on time and has failed to timely release the risk warning announcement that the stock may be suspended and the notice of non-disclosure of annual report within the specified time limit. According to a press release issued by the CSRC on 16 August 2017, administrative penalties were imposed to Zhongxinghua due to its failure in performing the necessary audit procedures for the certain companies in 2012 and 2013. As a result, business income of RMB1.5 million was confiscated, together with a fine of RMB4.5 million, from Zhongxinghua; and the relevant auditors involved in the audit work for those companies were given a warning and/or fined as a result.

Zhongxinghua has confirmed to the Issuer that the companies involved in the regulatory decisions and/or warnings above were all unrelated to the Group and that the auditors who participate in the audit of the Group’s historical financial statements were not the subject of, or involved in, the regulatory decisions and/or warnings above and are qualified to provide audit services under applicable PRC laws, rules and guidelines. Zhongxinghua has further confirmed that it has taken the required rectification measures for all the above matter cited. Zhongxinghua has further confirmed that its audit work for the

Group, including in respect of the financial statements included elsewhere in this Offering Circular, its office's registration as an accounting firm, its ability to provide comfort letters and the qualification of the auditors participating in this offering are not affected. According to Zhongxinghua, none of the abovementioned administrative sanctions are related to the Zhongxinghua team serving as the Group's current auditor. The abovementioned administrative sanctions imposed by CSRC and NAFMII do not (i) disqualify the Zhongxinghua from participating in the offering of the Bonds as the auditor of the Issuer, (ii) have any impact on Zhongxinghua's unqualified audit opinions for the Issuer's financial statements as at and for the years ended 31 December 2016, 2017 and 2018, (iii) have any impact on Zhongxinghua in continuing to provide audit services to the Issuer, or (iv) have any impact on Zhongxinghua's ability to provide services to the Issuer in relation to any future note issuance by Issuer in the PRC as an existing client of Zhongxinghua in the PRC.

However, there can be no assurance that the relevant PRC regulatory agencies would not carry out any review of Zhongxinghua's past audit and/or other assurance work in relation to other companies or even in relation to the Group. There can be no assurance that there will not be prolonged or broadened investigations conducted by the CSRC or NAFMII against Zhongxinghua, nor can there be any assurance that further negative news about Zhongxinghua would not have a material and adverse effect on the Group.

## **RISKS RELATING TO THE GROUP'S INFRASTRUCTURE CONSTRUCTION BUSINESS**

### **The Group's infrastructure construction projects that are public interest projects may have a material and adverse effect on the Group's financial condition and results of operations.**

The Group is wholly-owned by the Huai'an Municipal Government. As a state-owned enterprise, it from time to time is required to engage and participate in projects which are motivated by public interests and social welfare development. As such, some of the Group's infrastructure construction projects are for public interest by nature and do not generate any profit. The Group has received fiscal subsidies or asset injections, in the form of land use rights, cash or other assets, and may receive other financial support from the Huai'an Municipal Government for such government-sponsored projects. However, such financial support may not always be available due to the government's liquidity, budgeting priorities and other considerations. Further, relevant governmental authorities may change the initial planning for such projects and cause increase the total investment amount and government budgetary concern for the Group after the construction work begins. The Group has limited resources and engagement in such projects may reduce its ability to participate in other profit-generating projects. As at the date of this Offering Circular, the Group has been involved in various government projects and may continue be required to participate in such projects from time to time. There can be no assurance that the Group's business, financial condition and results of operations will not be materially and adversely affected as a result.

### **Some of the Group's projects are less profitable, and the Group may not be able to continue developing new projects that generate higher levels of profit in the future.**

Some of the Group's projects are less profitable than the Group's other businesses. The Group is often affected by government policies when it undertakes major public infrastructure projects. As public spending on such projects may be restricted due to governmental policies on public spending, profits generated from these projects may be limited. In addition, the Group may from time to time undertake various landmark projects involving high costs, high precision requirements, tight construction schedules and substantial capital investments which could lead to increased costs and funding requirements. The undertaking of low-profit projects may expose the Group to short term losses and could adversely affect its profit-generating abilities.

**The Group faces competition from other infrastructure construction companies, which may adversely affect its business and results of operations.**

Some of the Group's infrastructure construction projects are obtained through a public tender process. The Group's competition comes from various sources, including large state-owned enterprises of the PRC, privately-owned domestic companies, and leading international companies, in Jiangsu Province in particular. As a result of the PRC's accession to the World Trade Organisation, the PRC government has opened up domestic markets to foreign competition, and foreign invested companies are now allowed to participate in various types of infrastructure projects. The Group also competes with both local and international companies in capturing new business opportunities in the PRC. Some of these companies have significant financial resources, marketing and other capabilities. In the PRC, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group. The international companies are able to capitalise on their overseas experience to compete in various PRC markets. The Group's market position depends on its ability to anticipate and respond to various competitive factors, including pricing strategies adopted by competitors, changes in customer preferences and availability of capital and financing resources. The Group may lose its customers to its competitors if, among other things, it fails to keep its prices at competitive levels or to sustain and upgrade its capacity and technology. Increased competition may result in price reductions, reduced profit margins and loss of market share, which in turn may adversely affect the Group's financial condition and results of operations.

**The Group may be adversely affected by the performance of third-party contractors.**

The Group engages third-party contractors to construct some of the infrastructure construction projects the Group undertakes. The Group generally selects independent contractors through an open tender process. However, there can be no assurance that the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet the Group's quality and safety standards. If the performance of any independent contractor is not satisfactory, the Group may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of its projects.

Further, if the completion of the Group's infrastructure construction projects is delayed, the Group may incur additional costs due to a contractor's financial or other difficulties. In addition, there may be a shortage of contractors that meet the Group's quality requirements. Contractors may undertake projects for other companies and developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for the Group on time or within budget. Any of these factors could have a material adverse effect on the Group's infrastructure construction business, financial condition and results of operations.

**The relocation of incumbent residents and local businesses on the sites where the Group's projects are located may result in delays in its development and/or increase its development costs.**

Some of the projects that the Group has developed involve relocation of incumbent residents and local businesses, and the Group believes that similar situations may recur when it develops its future projects. If any incumbent resident or business is dissatisfied with the relocation compensation and refuses to be relocated, the relevant entity of the township government will seek to resolve the dispute by negotiating with the relevant resident or business to reach a mutually acceptable relocation compensation arrangement, or apply to the relevant land authority for its determination on whether the relocation compensation and relocation timetable is compliant with PRC law. The relevant land authority will then make a decision as to the proper relocation compensation and timetable. There can be no assurance that the relocation of incumbent residents or businesses will proceed smoothly or that they will agree to the compensation. In addition, the amount of compensation to be paid is subject to PRC governmental regulation and can be changed at any time. Accordingly, any delays in effecting such relocations of

these incumbent residents or businesses may result in delays in the Group's development schedules and/or increase its development costs, any of which could have a material adverse effect on its business, financial condition and results of operations.

**The businesses that the Group is involved in are exposed to project development risks and cost overruns, and delays may adversely affect the Group's return on investment.**

Projects invested in by the Group typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before cash proceeds are generated. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of construction materials, equipment or labour, adverse weather conditions, natural disasters, labour disputes, disputes with subcontractors, accidents, difficulties in obtaining necessary governmental approvals, changes in governmental priorities and other unforeseen circumstances. Any of these circumstances could give rise to construction delays and/or cost overruns.

Failures to complete construction according to specifications and quality standards on a timely basis may result in disputes, contract termination, liabilities and/or lower returns than anticipated on the construction project concerned. Such delays or failures to complete and/or unilateral termination of a project by customers may cause the Group's turnover or profitability to be lower than what the Group has expected.

**The Group's business and operations may be adversely affected by any failure to maintain an effective quality control system.**

The Group relies heavily on its quality control systems to ensure the safety and quality of its projects and products. Therefore it needs to maintain an effective quality control system for the Group's infrastructure construction and other businesses. The effectiveness of the Group's quality control system depends significantly on a number of factors, including a timely update of the quality control system to suit the ever-changing business needs, the related training programmes as well as its ability to ensure that the Group's and the contractors' employees adhere to its quality control policies and guidelines.

There can be no assurance that the quality of the projects undertaken by the Group or products sold by the Group will always meet the required standard. Any failure or deterioration of the Group's quality control systems could result in defects in its projects and products, which in turn may subject the Group to contractual, product liability and other claims. Any such claims, regardless of whether they have any merit, could cause the Group to incur significant costs, harm its business reputation and result in significant disruption to its operations. Furthermore, if any of such claims are ultimately successful, the Group could be required to pay substantial monetary damages or penalties. Although the Group believes that its quality control systems have functioned properly, there can be no assurance that failures in its quality control systems will not occur in the future, and any such failure could have an adverse effect on the Group's business and operations.

**The Group's business is sensitive to adverse weather and environmental conditions.**

Adverse weather conditions, such as extreme cold weather, snow, typhoons, flooding and heavy or sustained rainfall and natural disasters such as earthquakes, landslides or mudslides, may prevent the Group from completing its construction projects on schedule, delaying its receipt of payment and possibly causing the Group to incur increased operating expenses. Climatic conditions that are unusually severe or intense and occur at abnormal times or last longer than usual could therefore have a material adverse effect on the Group's business, financial condition and results of operations. During periods of curtailed activity due to adverse weather conditions, the Group may continue to incur operating expenses, but its operating income may be delayed or reduced. In China, these adverse weather conditions are more likely to take place during summer or winter, and as a result, the Group's business has a certain degree of seasonality.

## **RISKS RELATING TO THE GROUP'S TRANSPORTATION LOGISTICS BUSINESS**

**The Group's profitability may be affected by the existence and development of other competing means of transport.**

The profitability of the Group's transportation logistics business, in particular its city bus transportation service business and tram business, may be affected by the existence, proximity, affordability and efficiency of other competing means of transport and alternative routes of similar quality. Any negative impact on traffic volume arising from potential competition could have a material adverse effect on the Group's business, results of operations and financial condition.

**The Group's fare rates are subject to the regulations of the relevant government authorities.**

The fare rates for the Group's city bus transportation service and tram business are subject to the regulations of the relevant government authorities in Huai'an. Despite the heavy passenger flow on the Group's city bus transportation system every day, operating incomes from ticket sales is historically unable to recover the operating costs of city bus transportation operations due to the low ticket price. The Group's tram business is at a relatively early stage and yet to break even. The Group's ability to raise fares is subject to relevant government authorities' approval, which takes into consideration factors such as changes in market conditions, trends in usage of public transportation and other factors to compensate for increases in operating, financing and other costs which are limited by the Huai'an Municipal Government's policies on bus fares, competitive dynamics in the mass transit industry and commuter preferences.

**The Group relies on security procedures carried out at other port facilities and by its shipping line customers in its port operations business, which are outside its control.**

In its port operations business, the Group inspects the physical condition and the seals of containers that enter its ports in accordance with the inspection procedures prescribed by, and under the authority of, the governmental body charged with oversight of the relevant port. The Group also relies on the security procedures carried out by the port facilities that containers have previously passed through to supplement its own inspection. However, there can be no assurance that the cargo that passes through the Group's port will not be affected by breaches in security or acts of terrorism, either directly or indirectly, at other points of the logistics chain. Any security breach or act of terrorism that occurs at one or more of the facilities, or on a shipping line or other port facility that has handled the cargo prior to the cargo arriving at the port facilities of the Group could subject the Group to significant liability, including the risk of litigation and loss of goodwill.

**The Group is exposed to credit risk with respect to its customers, and its business, financial condition, results of operations and prospects could be adversely affected if its customers default on their obligations.**

The Group seeks to limit its credit exposure to customers by setting credit limits for individual customers, taking financial guarantees and monitoring the outstanding receivables of its customers, as its customers may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. The Group's largest customer operates in a sector along the industry value chain of the Group, thus subjecting the Group to larger credit risk as the customer and the Group may be adversely affected by the same economic changes. Delayed payment, non-payment or non-performance on the part of one or more of its major customers, or a number of its smaller customers, could have an adverse effect on the business, financial condition, results of operations and prospects of the Group.

**Any significant disruptions to or changes in the operations of the Group's transportation networks could adversely affect the Group's business.**

The Group's business relies upon the various means of transportation through which cargo arrives at and departs from its port, including railway, waterway and pipeline transportation. The operation of each transportation mean affects the timing and volume of the Group's cargo flow, and a disruption to or delay of operation of its transportation network or reduction of its carrying capacity would directly affect the arrival and departure of cargo at the Group's port, which would in turn affect the Group's cargo throughput. Furthermore, natural disasters, terrorist attacks, accidents, adjustments to schedule or capacity, inclement weather, dramatic and unexpected changes in transportation costs or other circumstances affecting the Group's transportation network would also affect the timing and volume of cargo arriving at and departing the Group's port. Any of the aforementioned events could have a material and adverse impact on the Group's business, financial condition, results of operations and prospects.

**Huai'an Lianshui Airport is subject to operation and business interruptions.**

The operation of Huai'an Lianshui Airport and the business of the Group could be interrupted or otherwise affected by serious air traffic accidents or natural disasters such as typhoons that could cause material damage to the airfield or terminal facilities, or disrupt the ability of aircraft to land at Huai'an Lianshui Airport. The Group's insurance policies, which were adopted based on common practice in the PRC, do not provide for compensation for loss of profits or consequential damages in the case of business interruption. Any such event or condition affecting Huai'an Lianshui Airport or the areas that it serves could have a material adverse effect on the Group's business, results of operations, prospects and financial condition. As is the case with many other domestic and international airports around the world, Huai'an Lianshui Airport has only one commercial runway. There is no assurance that the operation of the runway would not be disrupted due to required maintenance or repairs. In addition, the runway could require unscheduled repair or maintenance due to natural disasters, aircraft accidents and other factors that are beyond the Group's control. The closure of the runway for a significant period of time could have a material adverse effect on the Group's business, results of operations, prospects and financial condition.

**RISKS RELATING TO THE GROUP'S COMMERCIAL TRADING BUSINESS**

**The Group may experience losses on inventories.**

The Group engages in the commercial trading business with respect to products such as cement, certain chemical products, cotton, small household appliances and plastic pipes and fittings. Frequent new product introductions and price fluctuations in the raw materials, components and finalised goods that the Group trades can result in a decline in the net realisable value of the Group's inventory and may adversely affect the Group's inventory management, particularly with respect to the Group's businesses.

A shortage of raw materials or components generally increases their prices, and may depress the Group's margins to the extent that it is not possible to pass these higher costs to its customers. These shortages, however, may result in oversupply in the long run as suppliers increase production or capacity, causing raw materials and component prices to decline significantly over time as a result. Thus, the price of raw material tends to fluctuate. Specifically, among the goods that the Group trades, cement experienced price declines in recent years due to the general nationwide slowdown of the property development industry and the construction industry, which resulted in the oversupply of cement. Other goods that the Group trades also experienced price fluctuations to different extents in the recent years. In some cases, the Group has entered into certain long-term fixed price supply contracts to minimise the adverse effects of price fluctuations. In addition, the sale of small household appliances is subject to seasonal fluctuations. If the Group fails to anticipate customer demand properly, manage its supply of such raw materials, components and finalised goods and react quickly to market changes, the Group may carry excess or obsolete raw materials, components and finalised goods which may require write downs if

their net realisable value falls below the Group's carrying cost. Such a writedown could adversely affect the Group's gross margin. The Group believes that shortages and oversupply of raw materials or components are cyclical, and there can be no assurance that shortages or oversupply of raw materials or components will not occur in the future or that any such shortages or oversupply will not have a material adverse effect on the Group's results of operations.

There is also no assurance that rapid changes in the end-customer demand for the Group's products or future fluctuations in prices of raw materials, components and finished goods will not result in significant inventory loss.

## **RISKS RELATING TO THE GROUP'S OTHER BUSINESSES**

### **General declines or disruptions in the travel industry may materially and adversely affect the Group's tourism business and results of operations.**

The Group's tourism business may be subject to cyclical fluctuations. The Group's tourism businesses typically experience higher business volume during festive and holiday seasons, including the Chinese New Year, Labour Day holiday, the Mid-Autumn festival and the National Day. As a result of seasonal fluctuations, the results of operations of the Group's tourism business during one period may not be comparable with that of any other period of the year. In addition, there can be no assurance that the Group has sufficient resources to capture business opportunities during peak seasons, or that the Group will be able to effectively respond to a decline in market demand during the slow season. Failure to do so may materially and adversely affect the Group's tourism business.

## **RISKS RELATING TO THE PRC**

### **The Group is subject to the political and economic risks of doing business in the PRC.**

All of the Group's operations are located in the PRC. The Issuer expects that substantively all of the Group's future investments will be in the PRC, and that the Group's assets in the PRC will continue to account for substantively all of its overall income base. The Issuer's trading and financial condition, results of operations and future prospects depend to a large extent on the success of the Group's operations in the PRC and are subject, to a significant degree, to the political and economic situation and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including, but not limited to the extent of government involvement; level of development; growth rate; economic and political structure; the control of foreign exchange; allocation of resources; and regulation of capital reinvestment. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on the Group's operations. For example, the Group's business and financial condition may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. The future performance is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the European Union. There is substantial uncertainty relating to the implementation of the United Kingdom's exit from the European Union or its impact on the economic conditions of other part of the world, such as China, including but

not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and a possible economic recession involving more countries and areas. The outlook for the world economy and financial markets in 2018 and 2019 remains uncertain. Some countries have started to withdraw the stimulus packages previously executed during the financial crisis and implement more moderate monetary policies. The PRC withdrew its economic stimulus plan implemented during the financial crisis and returned to its general policy directions. Economic conditions in the PRC are sensitive to global economic conditions and it is impossible to predict how the PRC economy will develop in the future and whether it might slow down due to the global crisis or experience a financial crisis in a manner and scale similar to that in the United States and European countries between 2008 and 2011.

At the same time, the trade dispute between the PRC and the United States and the increased tariff that the United States plans to impose on Chinese imports may have an adverse effect on the global and the PRC economies resulting in continuing uncertainty for the overall prospects for the global and the PRC economies this year and beyond. Starting in March 2018, the United States imposed tariffs on steel and aluminum imports from the PRC, and later on 6 July 2018, the United States imposed 25 per cent. tariffs on USD34 billion worth of Chinese goods as part of its tariffs policy. In return, the PRC responded with similarly sized tariffs on U.S. products. On 18 September 2018, the United States imposed 10 per cent. tariffs on approximately USD200 billion worth of Chinese goods and announced plans to further increase the rate to 25 per cent. in January 2019. In return, the PRC responded with tariffs on USD60 billion worth of U.S. goods. In May 2019, the United States proposed to impose 25 per cent. tariffs on an additional USD300 billion worth of Chinese goods. The rhetoric surrounding the trade war continues to escalate and no conclusive and meaningful resolutions have emerged from the sporadic trade negotiations. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the PRC trading industry remain uncertain. The reduced demand for exports produced in the PRC, reduced levels of foreign and domestic investment in the PRC and decreased consumer confidence may result in a slowdown in growth in the markets of the PRC. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business and financial condition.

**The PRC legal system has inherent uncertainties that could limit the legal protections available to investors.**

The Issuer is incorporated under the laws of China and is governed by its articles of association. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws and regulations involve uncertainties.

**Changes in the economic, political and social conditions in the PRC and government policies adopted by the PRC government could affect the Group's business and prospects.**

The economy of the PRC differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources. The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has

implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises.

However, a large portion of productive assets in the PRC remain owned by the PRC government. The PRC government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management. There can be no assurance that the PRC government will continue to pursue the economic reforms or that any such reforms will not have an adverse effect on the Group's business.

The Group's operations and financial results could also be affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof). In addition, the growth of development in the economic and technology development zones and infrastructure construction demand in the PRC depends heavily on economic growth. If the PRC's economic growth slows down or if the economy of the PRC experiences a recession, the growth of development in Chinese economic and technology development zones and infrastructure construction demand may also slow down, and the Group's business prospects may be materially and adversely affected. The Group's operations and financial results, as well as its ability to satisfy its obligations under the Bonds, could also be materially and adversely affected by changes to or introduction of measures to control changes in the rate or method of taxation and the imposition of additional restrictions on currency conversion.

**Investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on Hong Kong or other foreign laws against the Issuer and its management.**

The Issuer is a company incorporated under the laws of China, and substantially all of its assets are located in China. In addition, all of its directors, supervisors and members of its senior management reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process outside China upon the Issuer's directors, supervisors, executive officers or members of their respective senior management, including with respect to matters arising under applicable securities laws. Furthermore, an original action may be brought in the PRC against the Issuer, or its directors, supervisors, executive officers or members of their respective senior management only if the actions are not required to be arbitrated by PRC law and their respective articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

**There can be no assurance of the accuracy or comparability of certain facts, forecasts and statistics contained in this Offering Circular with respect to the Group, the PRC or its economy.**

Certain facts, forecasts and statistics in this Offering Circular relating to the PRC, its economy, the industries in which the Group operates and the Group's market share and ranking are derived from various official and other publicly available sources which are generally believed to be reliable. However, the Group cannot guarantee the quality and reliability of such source materials. In addition, these facts, forecasts and statistics have not been independently verified by the Group or any of its directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy or fairness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up to date. The Group has taken reasonable care in reproducing or extracting the information from such sources.

However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or be comparable to facts, forecasts or statistics produced for other economies and should not be unduly relied upon.

**Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect the Issuer's operations and financial results.**

The Issuer receives substantially all of its revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to allow it to make payments on obligations denominated in currencies other than the Renminbi.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. On 21 July 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. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. The People's Bank of China surprised markets in August 2015 by thrice devaluing the Renminbi, lowering its daily mid-point trading price significantly against the U.S. dollar. The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account. Renminbi depreciated significantly against the U.S. dollar following this August 2015 announcement by the PBOC. Since 2016, the exchange rate of Renminbi against the U.S. dollar experienced further fluctuation. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019. In August 2019, the People's Bank of China on 5 August 2019 set the RMB's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term. Any significant appreciation of the Renminbi against the U.S. dollar or other foreign currencies may result in the decrease in the value of the Group's foreign currency-denominated assets. Conversely, any significant depreciation of the Renminbi may adversely affect the value of its businesses and could adversely affect the value, translated or converted into U.S. dollars or otherwise, of the Group's earnings and its ability to satisfy its obligations under the Bonds. As the majority of the Group's costs and expenses are denominated in Renminbi, appreciation of the Renminbi against the U.S. dollar would increase the Group's costs in U.S. dollar terms. In addition, as the Group's operating subsidiaries in the PRC receive revenues in Renminbi, any significant depreciation of the Renminbi against the U.S. dollar may have a material adverse effect on the Group's revenues in U.S. dollar terms and financial condition. For example, the Group would need to convert proceeds of this offering dominated in U.S. dollars into Renminbi for its operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount it receives from the conversion. In addition, there are limited instruments available for the Issuer to reduce its foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect the Issuer's businesses, financial conditions and results of operations of the Issuer.

**The operations of the Issuer may be affected by rising inflation rates within the PRC.**

Inflation rates within the PRC have been on a sharp uptrend in recent years. Increasing inflationary rates are due to many factors beyond the Issuer's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements

in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Issuer's expectations, the costs of payouts to customers may become significantly higher than the Issuer has anticipated for the future, and the Issuer may be unable to increase rates charged to customers in amounts that are sufficient to cover their increasing operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on the Issuer's businesses and financial conditions and results of operations, as well as its liquidity and profitability.

## **RISKS RELATING TO THE BONDS**

**Any public interest assets of the Group should not be taken into account when the Group's business, financial condition, results of operations and prospects are assessed.**

According to Circular 706, any public interest assets such as public schools, public hospitals, cultural facilities, parks, public squares, office buildings of government departments and institutions, municipal roads, non-toll bridges, non-operating water conservancy facilities, no-charge pipe network facilities and other public interest assets and the usage rights of reserve land cannot be counted towards the Group's assets for the purposes of issuing medium and long-term foreign debt. As at 31 December 2018, the Group's Public Interest Assets amounted to approximately RMB5.0 billion, representing approximately 11.3 per cent. of the Group's total assets. Potential investors should note that such amount of the Group's Public Interest Assets has not been audited by any auditor and as such potential investors must exercise caution when using or placing any reliance on such amount.

Prospective investors should not take into account the Group's Public Interest Assets when assessing the Group's business, financial condition, results of operations and prospects as the enforcement towards the Group's Public Interest Assets may involve uncertainties. The Group's Public Interest Assets have not been excluded from the Group's consolidated financial statements included in this Offering Circular, potential investors must therefore exercise caution when using such consolidated financial statements to evaluate the Group's business, financial condition, results of operations and prospects. In addition, as at the date of this Offering Circular, the Group does not have any plan to dispose the Public Interest Assets. For the purposes of preparing the consolidated financial statements, the Group will continue to include all of its assets (including the Public Interest Assets) in the consolidated financial statements in accordance with the PRC GAAP. The Bondholders must exercise caution when evaluating the Group's business, financial condition, results of operations and prospects when reviewing the consolidated financial statements prepared by the Group.

Circular 706 further provides that the punishment for enterprises involved in unlawful financing and guarantee shall be intensified, such enterprises shall be included in the blacklist of relevant fields and the national credit information sharing platform for publicity, trans-departmental joint punishment shall be implemented, notification shall be made in a timely manner, and relevant liable parties shall be restricted from filing new applications or participating in the recordation and registration of foreign debts.

As Circular 706 is relatively new and given the limited volume of published decisions relating to Circular 706, the interpretation and implementation of Circular 706 involves uncertainties. In addition, there can be no assurance that the PRC government will not impose penalty on the Group according to Circular 706 or impose additional or stricter laws and regulations relating to foreign debt financing, which may increase the Group's financing costs and in turn could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

**The PRC government and the Huai'an Municipal Government have no obligations under the Bonds.**

The PRC government (including the Huai'an Municipal Government) is not an obligor and shall under no circumstances have any obligations arising out of or in connection with the Bonds in lieu of the Issuer. Bondholders shall have no recourse to the PRC government (including the Huai'an Municipal Government) in respect of any obligation arising out of or in connection with the Bonds in lieu of the Issuer. This position has been reinforced by the Circular 23 and the Circular 706. Both circulars are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws and regulations involve uncertainties.

The PRC government and the Huai'an Municipal Government as the ultimate funder of the Issuer only has limited liability in the form of its indirect contribution in the Issuer. As such, the PRC government and the Huai'an Municipal Government do not have any payment obligations under the Bonds. The Bonds are solely to be repaid by the Issuer pursuant to the Bonds as an obligor under the relevant transaction documents and as an independent legal person.

**Any failure to complete the relevant filings under the NDRC Circular and the relevant registration under SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer and/or the investors of the Bonds.**

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with a maturity not less than one year with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The Issuer has registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC on 3 February 2019 evidencing such registration, and intends to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe in accordance with the NDRC Circular. According to the NDRC Circular, if there are major discrepancies between the actual circumstances of the Bonds and the circumstances indicated in the certification of filing and registration by the NDRC which was obtained on 3 February 2019, an explanation shall be given when submitting the information in relation to the issuance of the Bonds to the NDRC. If an enterprise maliciously and falsely reports the circumstances of its foreign debts for filing and registration into the national credit information platform, the NDRC shall enter such event into the credit records of such enterprise. In the worst case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer to perform or comply with any of its obligations under the Bonds and the Bonds might be subject to enforcement as provided in Condition 9 (*Events of Default*) of the Terms and Conditions. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions.

In accordance with the Administrative Measures for Foreign Debt Registration (外債登記管理辦法) (the “**Foreign Debt Registration Measures**”) issued by the SAFE on 28 April 2013, which came into effect on 13 May 2013 and was amended by the Notice on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知(匯發[2015]20號))(Hui Fa [2015] No.20), the Issuer shall complete foreign debt registration in respect of the issue of the Bonds with the local branches of SAFE in accordance with laws and regulations. Relevant laws and legislations related to the registration with SAFE include the Operation Guidelines for Administration of Foreign Debt Registration (外債登記管理操作指引) promulgated and amended together with the Foreign Debt Registration Measures, as well as the Operating Guidelines for Foreign Exchange Business under the Capital Account (2017 Version)(資本項目外匯業務操作指引(2017年版)) and after consultation with the local SAFE, the Issuer is required to register the Bonds within 15 Registration Business Days after the Issue Date and complete such registration in accordance with the Foreign Debt Registration

Measures. Before such registration of the Bonds is completed, it is uncertain whether the Bonds are enforceable as a matter of PRC law and it may be difficult for Bondholders to recover amounts due from the Issuer, and the Issuer may not be able to remit the proceeds of the offering into the PRC or remit money out of the PRC in order to meet its payment obligations under the Bonds. Pursuant to article 27(5) of the Foreign Debt Registration Measures, a failure to comply with registration requirements may result in a warning and fine as set forth under article 48 of the Foreign Exchange Administrative Regulations (外匯管理條例) promulgated by the State Council in 2008. However, pursuant to article 40 of the Foreign Debt Administration Provisional Rules (外債管理暫行辦法) promulgated by MOF, the NDRC and SAFE, a failure by a domestic entity to register a foreign debt contract will render the contract not legally binding and unenforceable. Under the Terms and Conditions, the Issuer has undertaken to use its best endeavours, and it intends, to complete the registration of the Bonds with SAFE within 15 Registration Business Days of the Issue Date. The Issuer has already consulted with local SAFE in connection with the registration procedures and documentary requirements. The Issuer does not foresee any obstacle in completing the registration within the abovementioned period. In the unlikely event that having exercised its best endeavours, the Issuer is unable to complete such registration within the abovementioned time period, investors will have the right to require the Issuer to redeem their holding of Bonds in accordance with the Terms and Conditions. However, notwithstanding such right, the Issuer may have difficulty in remitting funds offshore to service payments in respect of the Bonds and investors may encounter difficulties in enforcing judgments obtained in the Hong Kong courts with respect to the Bonds and the Trust Deed (as defined in the Terms and Conditions) in the PRC. In such circumstances, the value and secondary market price of the Bonds may also be materially and adversely affected.

**The Bonds are unsecured obligations.**

As the Bonds are unsecured obligations of the Issuer, the repayment of the Bonds may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

**Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Bondholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.**

The Terms and Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "Reciprocal Arrangement"), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. In addition, on 18 January 2019, the Supreme People's Court of China (the "SPC") and the government of Hong Kong Special

Administrative Region (the “HKSAR”) signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排)(the “**New Reciprocal Arrangement**”). The New Reciprocal Arrangement extends the scope of judicial assistance, and the effective date shall be announced by SPC and HKSAR after SPC issued the judicial interpretation and HKSAR completed relevant procedures. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Reciprocal Arrangement or, when in force, the New Reciprocal Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder’s ability to initiate a claim outside of Hong Kong will be limited.

**The Bonds may not be a suitable investment for all investors.**

The Bonds may be purchased as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to the investor’s overall portfolios. A potential investor should not invest in the Bonds unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor’s overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Bonds are legal investments for it, (b) Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

**An active trading market for the Bonds may not develop.**

The Bonds are a new issue of securities for which there is currently no trading market. Although application will be made to the Hong Kong Stock Exchange for the Bonds to be admitted for trading on the Hong Kong Stock Exchange, no assurance can be given as to the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds or that a liquid market will develop. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. None of the Managers is obligated to make a market in the Bonds, and if the Managers do so, they may discontinue such market making activity at any time at their sole discretion. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

**Investors in the Bonds may be subject to foreign exchange risks.**

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

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

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Issuer's or the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. There is no assurance that these developments will not occur in the future.

**Developments in other markets may adversely affect the market price of the Bonds.**

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

**The Issuer may be unable to redeem the Bonds upon the due date for redemption thereof.**

On the Maturity Date (as defined in the Terms and Conditions), the Bonds will be redeemed at their principal amount, or following the occurrence of a Relevant Event (as defined in the Terms and Conditions), the Issuer may, at the option of any Bondholder, be required to redeem all, but not some only, of such Bondholder's Bonds at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together in each case with accrued interest. On the Maturity Date or if such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds on the Maturity Date

or in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's other indebtedness.

**The Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities and commitments of the Issuer's existing and future subsidiaries and effectively subordinated to the Issuer's secured debt to the extent of the value of the collateral securing such indebtedness.**

The Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing or future subsidiaries, whether or not secured. The Bonds will not be guaranteed by any of the Issuer's subsidiaries, and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer is subject to various restrictions under applicable laws. The Issuer's subsidiaries will be separate legal entities that have no obligation to pay any amounts due under the Bonds or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's right to receive assets of any of the Issuer's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer is creditor of that subsidiary). Consequently, the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any subsidiaries that the Issuer may in the future acquire or establish.

The Bonds are the Issuer's unsecured obligations and will (i) rank at least equally in right of payment with all the Issuer's other present and future unsecured and unsubordinated obligations; (ii) be effectively subordinated to all of the Issuer's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's present and future subordinated obligations, subject in all cases to exceptions as may be provided by applicable legislation. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably with all of the Issuer's other unsecured and unsubordinated creditors, including trade creditors. If there are insufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

**The insolvency laws of the PRC may differ from those of another jurisdiction with which the holders of the Bonds are familiar.**

The Issuer is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Issuer would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

**If the Issuer is unable to comply with the restrictions and covenants in its debt agreements (if any), or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayment of the Issuer's debt to be accelerated.**

If the Issuer is unable to comply with the restrictions and covenants in the Bonds, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the debt agreements of the Issuer, contain cross-acceleration or cross-default provisions. As a result, the default

by the Issuer under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the Issuer's assets and cash flows would be sufficient to repay all of the Issuer's indebtedness in full, or that it would be able to find alternative financing. Even if the Issuer could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer.

**A change in English law which governs the Bonds may adversely affect holders of the Bonds.**

The Terms and Conditions are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change English law or administrative practice after the date of issue of the Bonds.

**Modifications and waivers may be made in respect of the Terms and Conditions and the Trust Deed by the Trustee or less than all of the holders of the Bonds, and decisions may be made on behalf of all holders of the Bonds that may be adverse to the interests of the individual holders of the Bonds.**

The Terms and Conditions contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting and those Bondholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of the individual holders of the Bonds.

The Terms and Conditions also provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification of the Trust Deed, the Terms and Conditions and/or the Agency Agreement (as defined in the Terms and Conditions) (other than in respect of a reserved matter) which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Bonds, the Trust Deed or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

In addition, the Trustee may, without the consent of the holders of the Bonds, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Bonds will not be materially prejudiced thereby.

**The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or pre-funding to its satisfaction.**

In certain circumstances (including without limitation the giving of notice pursuant to Condition 9 (*Events of Default*) of the Terms and Conditions and the taking of enforcement steps pursuant to Condition 13 (*Enforcement*) of the Terms and Conditions), the Trustee may (in its sole discretion) request the Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws or regulation, it will be for the Bondholders to take such actions directly.

**Gains on the transfer of the Bonds and interest payable by the Issuer to overseas Bondholders may be subject to income tax and value-added tax under PRC tax laws.**

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)(the “**EIT Law**”) which took effect on 1 January 2008 and amended on 29 December 2018 and took effect on that date and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “**non-resident enterprise**” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes 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 “**Arrangement**” which was promulgated on 27 September 2006, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied. As Bonds will be held in the Clearing Systems (as defined below), it is not possible to ascertain the jurisdiction of the Bondholders.

Pursuant to the EIT Law, the PRC Individual Income Tax Law (中華人民共和國個人所得稅法)(the “**IIT Law**”) which took effect on 1 September 2011 and amended on 31 August 2018, and the implementation regulations in relation to both the EIT Law and IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals respectively, subject to adjustment by applicable treaty. As the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知(財稅[2016]36號))(Cai Shui [2016] No. 36) (“**Circular 36**”), which introduced a new value-added tax (“**VAT**”) from 1 May 2016. VAT is applicable where entities or individuals provide services within the PRC. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. Given that the Issuer is located in the PRC, the holders of the Bonds would be regarded as providing the financial services within China and consequently, the Issuer will be obligated to withhold VAT of 6 per cent. (and certain surcharges as described below) on payments of interest and certain other amounts on the Bonds paid by the Issuer to Bondholders that are non-resident enterprises or individuals. Such surcharges, including urban maintenance and construction tax (7 per cent.), education surcharges (3 per cent.) and local education surcharges (2 per cent.), when aggregated, amount to 12 per cent. of the VAT payment and consequently, the combined rate of VAT and surcharges would be 6.72 per cent.

VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on interest or gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

**The Bonds will be represented by a Global Certificate and holders of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing Systems.**

The Bonds will be represented by beneficial interests in a Global Certificate. Such Global Certificate will be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream (the “**Clearing Systems**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Certificates. The Clearing System will maintain records of the beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the relevant Clearing System for distribution to their accountholders.

A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Bondholders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such Bondholders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

**Bondholders should be aware that a definitive certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.**

In relation to any Bond which has a principal amount consisting of a minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination will not receive a definitive certificate in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more specified denominations. If definitive Bonds are issued, holders should be aware that a definitive certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

**The Bonds may be redeemed by the Issuer prior to maturity.**

The Issuer may redeem the Bonds at its option, in whole but not in part, at a redemption price equal to their principal amount, together with interest accrued up to (but excluding) the date fixed for redemption if, subject to certain conditions, as a result of a change in or amendment to tax laws or regulations, the Issuer has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions), as further described in Condition 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions.

If the Issuer redeems the Bonds prior to their maturity date, investors may not receive the same economic benefits they would have received had they held the Bonds to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, the Issuer's ability to redeem the Bonds may reduce the market price of the Bonds.

**The rating expected to be assigned to the Bonds may be downgraded or withdrawn in the future.**

Fitch has assigned a corporate rating of "BB" with a stable outlook to the Issuer. The Bonds are expected to be assigned a rating of "BB" by Fitch. The rating represents only the opinions of the rating agency and its assessment of the ability of the Issuer to perform its obligations under the Bonds, the Trust Deed and the Agency Agreement and credit risks in determining the likelihood that payments will be made when due under the Bonds. A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to revision, qualification, suspension, reduction or withdrawn at any time. The Issuer cannot assure investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Issuer is not obligated to inform holders of the Bonds of any such revision, qualification, supervision, reduction or withdrawal. The rating should be evaluated independently of any other rating of the Bonds or other securities of the Issuer (if any). A revision, qualification, suspension, reduction or withdrawal at any time of any rating assigned to the Bonds may adversely affect the market price of the Bonds.

**The Issuer may issue additional Bonds in the future.**

The Issuer may, from time to time, and without prior consultation of the Bondholders, create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects save for the issue date, the first payment of interest on them, the timing for complying with the Registration Conditions and the making of the Foreign Debt Registration and the NDRC Post-issue Filing (see "*Terms and Conditions of the Bonds – Further Issues*")) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

**Changes in market interest rates may adversely affect the value of the Bonds.**

The Bonds will carry fixed interest rates. Consequently, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. If Bondholders sell the Bonds they hold before the maturity of such Bonds, they may receive an offer less than their investment.

## EXCHANGE RATES

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. On 21 July 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 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 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 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. Since 2016, the exchange rate of Renminbi against the U.S. dollar experienced further fluctuation. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

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
		<i>(CNY per U.S.\$1.00)</i>		
2013 .....	6.0537	6.1412	6.2438	6.0537
2014 .....	6.2046	6.1704	6.2591	6.0402
2015 .....	6.4778	6.2869	6.4896	6.1870
2016 .....	6.9430	6.6549	6.9580	6.4480
2017 .....	6.5063	6.7350	6.9575	6.4773
2018 .....	6.8755	6.6292	6.9737	6.2649
December .....	6.8755	6.8837	6.9077	6.8343
2019				
March .....	6.7112	6.7119	6.7381	6.6916
April .....	6.7347	6.7161	6.7418	6.6870
May .....	6.9027	6.8519	6.9182	6.7319
June .....	6.8650	6.8977	6.9298	6.8510
July .....	6.8833	6.8775	6.8927	6.8487
August .....	7.1543	7.0629	7.1628	6.8972

<sup>(1)</sup> Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Board of Governors of the Federal Bank System.

<sup>(2)</sup> Annual and semi-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.

## TERMS AND CONDITIONS OF THE BONDS

*The following are the terms and conditions of the Bonds (as defined below) substantially in the form in which they (subject to modification and other than the text in italics) will be endorsed on the definitive Certificates and referred to in the Global Certificate.*

The U.S.\$300,000,000 6.0 per cent. bonds due 2022 (the “**Bonds**”, which expression, unless the context requires otherwise, includes any further securities issued pursuant to Condition 15 and to be consolidated and forming a single series therewith) of Huai’an Traffic Holding Co., Ltd. (淮安市交通控股有限公司)(the “**Issuer**”) are constituted by a trust deed (as amended or supplemented from time to time, the “**Trust Deed**”) dated on or about 19 September 2019 (the “**Issue Date**”) made between the Issuer and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include its successor(s) as trustee for the holders of the Bonds. The statements in these Conditions (as defined below) include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed.

The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer on 28 May 2018.

Copies of the Trust Deed and the agency agreement dated on or about 19 September 2019 (as amended or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the “**Principal Paying Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”) and any other Agents appointed thereunder are available for inspection upon prior written request and satisfactory proof of holding during normal business hours by the Holders (as defined below) at the principal office for the time being of the Trustee, being at the date of issue of the Bonds at One Canada Square, London E14 5AL, United Kingdom and at the specified office of the Principal Paying Agent. References herein to “**Paying Agents**” includes the Principal Paying Agent, and “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Bonds. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (these “**Conditions**”) will have the meanings given to them in the Trust Deed.

### 1. **FORM, SPECIFIED DENOMINATION AND TITLE**

The Bonds are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Bonds are represented by registered certificates (the “**Certificates**”) and, save as provided in Condition 3(b), each Certificate shall represent the entire holding of Bonds by the same Holder (as defined below).

Title to the Bonds shall pass by transfer and registration in the Register as described in Condition 3. The holder of any Bond shall (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate (other than the endorsed form of transfer) representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, “**Bondholder**” or “**Holder**” means the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

*Upon issue, the Bonds will be represented by a global certificate (the “Global Certificate”) registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A. These Conditions are modified by certain provisions contained in the Global Certificate while any of the Bonds are represented by the Global Certificate. See “Summary of Provisions relating to the Bonds in Global Form”.*

## 2. STATUS

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

## 3. TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

### (a) Register

The Issuer will cause the register (the “Register”) of Bondholders to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the Holders and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Holder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

### (b) Transfer

Subject to the Agency Agreement and Conditions 3(e) and 3(f) herein, a Bond may be transferred in whole or in part by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back of the Certificate duly completed and signed, at the specified office of the Registrar or any Transfer Agent together with any other evidence as the Registrar or such Transfer Agent may require to prove the title of the transfer and the authority of the transferor and the authority of the individuals who have executed such form of transfer.

In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a Holder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

### (c) Delivery of New Certificates

Each new Certificate to be issued upon transfer of Bonds pursuant to Condition 3(b) shall be made available for delivery within seven business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s) and provision of any other evidence required by the Registrar or the relevant Transfer Agent as provided in Condition 3(b). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the Holder making such

delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 3(c) and in Condition 3(e), “**business day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

*Except in the limited circumstances described herein (see “Summary of Provisions relating to the Bonds in Global Form”), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.*

(d) **Formalities Free of Charge**

Registration of transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any Agent but upon (i) payment (or the giving of such indemnity and/or security and/or pre-funding as the Issuer or any Agent may require) in respect of any taxes or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent being satisfied that the Regulations (as defined in Condition 3(f) below) concerning transfer of Bonds have been complied with.

(e) **Closed Periods**

No holder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (but excluding) the due date for any payment of principal (or premium) in respect of that Bond; or (ii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)); or (iii) after notice of redemption has been given pursuant to Condition 6(b); or (iv) after any such Bond has been put for redemption pursuant to Condition 6(c).

(f) **Regulations**

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer and registration of Bonds scheduled to the Agency Agreement (the “**Regulations**”). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee or by the Registrar, with the prior written approval of the Trustee. A copy of the current Regulations will be made available for inspection by the Registrar to any Holder upon prior written request and satisfactory proof of holding.

4. **COVENANTS**

(a) **Negative Pledge**

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and the Issuer will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **Foreign Debt Registration**

The Issuer undertakes that it will (i) within 15 Registration Business Days after the Issue Date, register or cause to be registered with SAFE the Bonds pursuant to the Administrative Measures for Foreign Debt Registration and its operating guidelines issued by SAFE, effective as of 13 May 2013 (the “**Foreign Debt Registration**”), (ii) use its best endeavours to complete the Foreign Debt Registration and obtain a registration certificate (or any other document evidencing the completion of the Foreign Debt Registration) from SAFE on or before the Registration Deadline and (iii) comply with all applicable PRC laws and regulations in relation to the Bonds.

(c) **NDRC Post-issue Filing**

The Issuer undertakes that it will (i) within 10 Registration Business Days after the Issue Date file or cause to be filed with the NDRC the requisite information and documents in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No 2044)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and effective as of 14 September 2015 and any implementation rules as issued by the NDRC from time to time (the “**NDRC Post-issue Filing**”) and (ii) comply with all applicable PRC laws, rules and regulations in connection with the Bonds.

(d) **Notification of Completion of the Foreign Debt Registration and the NDRC Post-issue Filing**

The Issuer shall before the Registration Deadline and within five Registration Business Days after the later of the submission of the NDRC Post-issue Filing and receipt of the registration certificate from SAFE (or any other document evidencing the completion of the Foreign Debt Registration), provide the Trustee with (i) a certificate in English signed by an Authorised Signatory (as defined in the Trust Deed) of the Issuer confirming (A) the completion of the NDRC Post-issue Filing and the Foreign Debt Registration and (B) no Relevant Event (as defined in Condition 6(c) below), Event of Default (as defined in Condition 9 below) or Potential Event of Default (as defined in the Trust Deed) has occurred; (ii) copies of the relevant documents evidencing the NDRC Post-issue Filing (if any) and the Foreign Debt Registration, each certified in English as a true and complete copy of the original by an Authorised Signatory of the Issuer (the items specified in (i) and (ii) together, the “**Registration Documents**”). In addition, the Issuer shall procure that within five Registration Business Days after the documents comprising the Registration Documents are delivered to the Trustee, the Issuer gives notice to the Bondholders (in accordance with Condition 16) confirming the completion of the NDRC Post-issue Filing and the Foreign Debt Registration.

The Trustee shall have no obligation or duty to monitor or ensure the Foreign Debt Registration with SAFE is completed as required by Condition 4(b) or the NDRC Post-issue Filing is made as required by Condition 4(c) or to assist with either the NDRC Post-issue Filing or the Foreign Debt Registration or to verify the accuracy, validity and/or genuineness of any Registration Documents or any translation or certification thereof or to give notice to the Bondholders confirming the completion of the NDRC Post-issue Filing and the Foreign Debt Registration, and shall not be liable to Bondholders or any other person for any of the foregoing and for not doing so.

(e) **Compliance Certificate and Financial Information**

So long as any Bond remains outstanding (as defined in the Trust Deed) the Issuer will furnish the Trustee with (A) a Compliance Certificate (on which the Trustee may rely as to such compliance) and a copy of the relevant Audited Financial Reports within 120 days of the end of each Relevant Period prepared in accordance with the Accounting Standards for Business Enterprises in China (“**PRC GAAP**”) (audited by an internationally or nationally recognised firm of independent accountants) of the Issuer and its Subsidiaries and if such statements shall be in the Chinese language, together with an English translation of the same translated by (aa) an internationally or nationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants, together with a certificate in English signed by a Director of the Issuer who is also an Authorised Signatory certifying that such translation is complete and accurate; and (B) a copy of the Unaudited Financial Reports within 90 days of the end of each Relevant Period prepared on a basis consistent with the Audited Financial Reports and if such statements shall be in the Chinese language, together with an English translation of the same and translated by (aa) an internationally or nationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants, together with a certificate in English signed by a Director of the Issuer who is also an Authorised Signatory certifying that such translation is complete and accurate.

(f) **In these Conditions:**

“**Audited Financial Reports**” means the annual audited consolidated balance sheet, income statement, cash flow statement and statement of changes in equity of the Issuer together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them;

“**Compliance Certificate**” means a certificate of the Issuer in English signed by any one of its Directors who is also an Authorised Signatory that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the “**Certification Date**”) not more than five days before the date of the certificate:

- (i) no Event of Default, Potential Event of Default or Relevant Event had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (ii) the Issuer has complied with all its obligations under the Trust Deed and the Bonds, or if non-compliance had occurred, giving details of it;

“**Issue Date**” means 19 September 2019;

“**NDRC**” means the National Development and Reform Commission of the PRC or its local counterparts;

“**person**” means any individual, corporation, partnership, limited liability company, undertaking, joint venture, association, trust, unincorporated organisation or government or any agency or political subdivision thereof;

“**PRC**” means the People’s Republic of China, which shall for the purpose of these Conditions only, exclude Hong Kong Special Administrative Region of the People’s Republic of China, Macau Special Administrative Region of the People’s Republic of China and Taiwan;

“**Registration Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing;

“**Registration Deadline**” means the day falling 90 Registration Business Days after the Issuer Date;

“**Relevant Indebtedness**” means any indebtedness incurred outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

“**Relevant Period**” means (i) in relation to the Audited Financial Reports, each period of twelve months ending on the last day of the Issuer’s financial year (being 31 December of that financial year); (ii) in relation to the Unaudited Financial Reports each period of six months ending on the last day of the Issuer’s first half financial year (being 30 June of that financial year);

“**SAFE**” means the State Administration of Foreign Exchange of the PRC or its local branch;

“**Subsidiary**” means, with respect to any person, (a) any corporation, association or other business entity of which more than 50 per cent. of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such person and one or more other Subsidiaries of such person; or (b) any corporation, association and other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person;

“**Unaudited Financial Reports**” means the semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated balance sheet, income statement, statement of cash flows and statements of changes in equity of the Issuer together with any statements, reports (including any directors’ and auditors’ review reports, if any) and notes attached to or intended to be read with any of them, if any; and

“**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.

## 5. INTEREST

### (a) Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including 19 September 2019 (the “**Issue Date**”) at the rate of 6.0 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.\$30.0 per Calculation Amount (as defined below) on 19 March and 19 September in each year (each an “**Interest Payment Date**”) commencing on 19 March 2020.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholders, and (b) the day falling seven days after the Trustee or the Principal Paying

Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Bondholders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per U.S.\$1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## 6. REDEMPTION AND PURCHASE

### (a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 19 September 2022 (the “**Maturity Date**”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

### (b) Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Bondholders in accordance with Condition 16 (which shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued up to (but excluding) the date fixed for redemption) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 12 September 2019, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, **provided that** no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

Prior to the giving of any Tax Redemption Notice pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate signed by any one Director of the Issuer who is also an Authorised Signatory stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer taking reasonable measures available to it, and (B) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendments. The Trustee shall be entitled (but shall not be obliged) to accept and rely upon such certificate and

opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event the same shall be conclusive and binding on the Bondholders.

(c) **Redemption for Relevant Events**

Following the occurrence of a Relevant Event, the Holder of any Bond will have the right (the “**Relevant Event Put Right**”), at such Holder’s option, to require the Issuer to redeem all, but not some only, of such Holder’s Bonds on the Put Settlement Date (as defined below in this Condition 6(c)) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together in each case with accrued interest up to (but excluding) the Put Settlement Date. To exercise such right, the Holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a “**Put Exercise Notice**”), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16.

The “**Put Settlement Date**” shall be the fourteenth day (in the case of a redemption for a Change of Control) or the fifth day (in the case of a redemption for a No Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

Not later than 14 days (in the case of a Change of Control) or five days (in the case of a No Registration Event) following the day on which the Issuer becomes aware of a Relevant Event, the Issuer shall procure that notice regarding such Relevant Event shall be delivered to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 16) stating:

- (i) the Put Settlement Date;
- (ii) the date of the Relevant Event and, briefly, the events causing, as applicable, the Change of Control or No Registration Event;
- (iii) the date by which the Put Exercise Notice must be given;
- (iv) the redemption amount and the method by which such amount will be paid;
- (v) the names and addresses of all Paying Agents;
- (vi) the procedures that Holders must follow and the requirements that Holders must satisfy in order to exercise the Relevant Event Put Right; and
- (vii) that a Put Exercise Notice, once validly given, may not be withdrawn.

Neither the Trustee nor the Agents shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and none of them shall have any obligation or duty to verify the accuracy, validity and/or genuineness of any documents in relation to or connection with the Registration Conditions and shall not be liable to Holders, the Issuer or any other person for not doing so.

For the purpose of these Conditions:

- (A) “**Control**” means (i) the ownership or control of more than 50 per cent. of the voting rights of the issued share capital of the relevant person or (ii) the right to appoint and/or remove all or the majority of the members of the relevant person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; the term “**Controlled**” has meanings correlative to the foregoing;
- (B) a “**Change of Control**” occurs when:
  - (i) the Huai’an Municipal Government ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; or
  - (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer’s assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity;
- (C) “**Huai’an Municipal Government**” means the People’s Government of Huai’an Municipality (淮安市人民政府) or its successor;
- (D) a “**No Registration Event**” occurs when the Registration Conditions are not complied with on or before the Registration Deadline;
- (E) a “**Person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s board of directors or any other governing board and does not include the Issuer’s wholly-owned direct or indirect subsidiaries;
- (F) “**Registration Conditions**” means the receipt by the Trustee of:
  - (i) the Registration Documents relating to the Foreign Debt Registration as set forth in Condition 4(d); and
  - (ii) a legal opinion as to PRC law issued by a reputable PRC law firm in connection with the issue of the Bonds, addressed to the Trustee and otherwise in form and substance satisfactory to the Trustee, that the Bonds (x) constitutes legal, valid and binding obligations of the Issuer and (y) is enforceable against the Issuer; and
- (G) a “**Relevant Event**” will be deemed to occur if:
  - (i) there is a No Registration Event; or
  - (ii) there is a Change of Control.

(d) **Purchase**

The Issuer or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the Holders or for the purposes of Condition 9, Condition 12(a) and Condition 13.

(e) **Notice of redemption**

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date, in such place and in such manner as specified in such notice in accordance with this Condition. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption and shall not be liable to Holders, the Issuer or any other person for not doing so.

(f) **Cancellation**

All Certificates representing Bonds purchased by or on behalf of the Issuer or any of its Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

7. **PAYMENTS**

(a) **Method of Payment:**

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of the Principal Paying Agent or any other Paying Agent if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii) below.
- (ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made by transfer to an account in U.S. dollars maintained by the payee with a bank.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or the Alternative Clearing System (as defined in the form of the Global Certificate), each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (b) **Payments subject to Fiscal Laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the

“Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

- (c) **Payment Initiation:** Payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment, or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Paying Agent, on the first Payment Business Day on which the Principal Paying Agent is open for business and on or following which the relevant Certificate is surrendered.
- (d) **Appointment of Agents:** The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, **provided that** the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar with a specified office outside the United Kingdom, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders.

- (e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) **Non-Payment Business Days:** If any date for payment in respect of any Bond is not a Payment Business Day, the Holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**Payment Business Day**” means a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets are generally open for business in (i) New York City, (ii) the place in which the specified office of the Principal Paying Agent is located, and (iii) in the case of payment against presentation or surrender of a Certificate to a Paying Agent other than the Principal Paying Agent, the place in which the specified office of such Paying Agent is located.

## 8. TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the aggregate rate applicable on 12 September 2019 (the “**Applicable Rate**”), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

*As at the date of the Offering Circular, the “Applicable Rate” shall be 16.72 per cent., pursuant to (a) the Enterprise Income Tax Law of the PRC and (b) the rate calculated pursuant to the Circular of Full Implementation of Business Tax to VAT Reform (which introduced a new value added tax from 1 May 2016) as explained in more detail in “Taxation – PRC”.*

If the Issuer is required to make a deduction or withholding by or within the PRC in excess of the Applicable Rate, the Issuer shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (i) **Other connection:** to a Bondholder (or to a third party on behalf of a Bondholder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the PRC other than the mere holding of the Bond; or
- (ii) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented or surrendered (where presentation or surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the Bondholder of it would have been entitled to such Additional Tax Amounts on presenting or, as the case may be, surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

“**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further presentation or, as the case may be, surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation or surrender.

Neither the Trustee nor the Agents shall be responsible for paying any tax, duty, charge, withholding or other payment referred to in this Condition 8 (*Taxation*) or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Bondholders or any other person to pay such tax, duty, charge, withholding or other payment in any jurisdiction.

## 9. **EVENTS OF DEFAULT**

If an Event of Default (as defined below) occurs the Trustee at its discretion may, and if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any

such case that the Trustee shall have first been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued but unpaid interest.

An “**Event of Default**” occurs if:

- (a) **Non-Payment:** there has been a failure to pay (i) the principal or premium (if any) of any of the Bonds when due or (ii) any interest on any of the Bonds within 14 days after due date of such payment; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations under the Bonds or the Trust Deed, and such default (i) is incapable of remedy or, (ii) if capable of remedy, is not remedied within 30 days after the Trustee has given written notice thereof to the Issuer; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised **provided that** the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds in the aggregate U.S.\$20,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 45 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged within 45 days; or
- (f) **Insolvency:** the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Principal Subsidiaries; or
- (g) **Winding-up:** an order of any court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer or any of its Principal Subsidiaries, or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee acting on an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such

Principal Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary, or (iii) in the case of a disposal of a Principal Subsidiary on an arm's length basis, whereby the proceeds resulting from such disposal are fully vested in the Issuer or another Subsidiary; or

- (h) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Hong Kong and the PRC is not taken, fulfilled or done; or
- (j) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (k) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(a) to 9(j) (both inclusive).

In this Condition 9:

**“Principal Subsidiary”** means any Subsidiary of the Issuer:

- (a) whose operating revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating revenue, as shown by its latest audited income statement is at least 5 per cent. of the consolidated operating revenue as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of operating revenue of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests;
- (b) whose operating profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating profits, as shown by its latest audited income statement are at least 5 per cent. of the consolidated operating profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of operating profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least 5 per cent. of consolidated total assets as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries including, for the avoidance of doubt, the investment of the Issuer in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and after adjustment for minority interests;

**provided that**, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, operating revenue, operating profit or total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of *pro forma* consolidated accounts prepared for this purpose by the Issuer;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its operating revenue, operating profit or total assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer; and
- (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer prepared for this purpose by the Issuer,
- (d) in the case of a Subsidiary to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary upon such transfer but shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition.

## 10. **PRESCRIPTION**

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 11. **REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, or is alleged to have been lost, stolen or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 12. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION, DETERMINATION AND ENTITLEMENT OF TRUSTEE

### (a) Meetings of Holders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any of the provisions of the Trust Deed and the Agency Agreement. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Trustee upon request in writing from Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented unless the business of such meeting includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, including consideration of proposals, *inter alia*, (i) to modify the Maturity Date of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to amend Condition 4 or (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders, whether or not they were present at the meeting at which such resolution was passed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Bondholders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

*So long as the Bonds are represented by the Global Certificate, Extraordinary Resolution includes a consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of all the Bondholders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding.*

### (b) Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, or any failure to comply with any of these Conditions or any of the provisions of the Trust Deed which in its opinion is not materially prejudicial to the interest of the Bondholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of applicable law. Any such modification, waiver or authorisation shall

be binding on the Bondholders and, unless the Trustee agrees otherwise, such modification, waiver or authorisation shall be notified to the Bondholders by the Issuer as soon as practicable thereafter in accordance with Condition 16.

**(c) Entitlement of the Trustee**

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

**13. ENFORCEMENT**

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and/or the Bonds, but it need not take any such steps or actions or institute such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

**14. INDEMNIFICATION OF THE TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including without limitation provisions relieving it from taking steps, actions or proceedings to enforce payment or taking other actions unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee and the Agents are entitled to enter into business transactions with the Issuer and/or any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Holders on any report, information, confirmation or certificate from or any opinion or advice of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, information, confirmation, certificate, opinion or advice, in which case such report, information, confirmation, certificate, opinion or advice shall be binding on the Issuer and the Holders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions or clarification of directions from the Bondholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction or clarification of such direction as a result of seeking such direction or clarification of such direction from the Bondholders or in the event that no direction or clarification is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder, the Issuer or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by Bondholders holding the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed.

The Trustee shall have no obligation or duty to monitor whether an Event of Default or a Potential Event of Default or a Relevant Event has occurred, and shall not be liable to the Holders or any other person for not doing so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

#### **15. FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Holders to create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects save for the issue date and the first payment of interest on them and the timing for complying with the Registration Conditions and the making of the Foreign Debt Registration and the NDRC Post-issue Filing) and so that the same shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities shall be constituted by a deed supplemental to the Trust Deed.

#### **16. NOTICES**

All notices to the Holders will be valid if mailed to them by uninsured mail at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any notice shall be deemed to have been given, on the date of such publication or, if published more than once, on the first date on which publication is made.

*So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, notices to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by these Conditions.*

#### **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

## 18. GOVERNING LAW AND JURISDICTION

### (a) **Governing Law**

The Trust Deed, the Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### (b) **Jurisdiction**

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed and the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Trust Deed and the Agency Agreement (“**Proceedings**”) may be brought in such courts. The parties to the Trust Deed have irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

### (c) **Agent for Service of Process**

The Issuer has irrevocably appointed in the Trust Deed an agent in Hong Kong to receive service of process in any Proceedings in Hong Kong based on any of the Bonds.

### (d) **Waiver of Immunity**

The Issuer has waived in the Trust Deed any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented in the Trust Deed to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) or any order or judgment made or given in connection with any Proceedings.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions set out in this Offering Circular. The following is a summary of certain of those provisions.*

*Terms defined in the Terms and Conditions set out in this Offering Circular have the meaning in the paragraphs below.*

The Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depository on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, will promise to pay such principal, interest and premium (if any) on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Terms and Conditions.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates if either Euroclear or Clearstream or any other clearing system through which the Bonds are held (an “**Alternative 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 permanently to cease business or does in fact do so.

Individual definitive certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate. Such exchange will be effected in accordance with the provisions of the Trust Deed, the Agency Agreement and the regulations concerning the transfer and registration of the Bonds scheduled thereto and, in particular, shall be effected without charge to any holder of the Bonds or the Trustee, but against such indemnity and/or security as the Registrar or the relevant Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

The Issuer will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive certificates.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions as they apply to the Bonds evidenced by the Global Certificate. The following is a summary of certain of those provisions:

### **Payment**

So long as the Bonds are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means a weekday (Monday to Friday), inclusive except 25 December and 1 January.

### **Calculation of Interest**

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

### **Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to holders of the Bonds shall be validly given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Bonds in substitution for notification as required by the Terms and Conditions.

### **Meetings**

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.\$1,000 in principal amount of Bonds for which the Global Certificate is issued.

### **Bondholder's Redemption**

The Bondholder's redemption option in Condition 6(c) (*Redemption for Relevant Events*) of the Terms and Conditions may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent within the time limits set out in that Condition, in accordance with the rules and procedures of Euroclear and Clearstream and any Alternative Clearing System, as applicable, failing which, in the form of the notice of redemption available from any Paying Agent and stating the principal amount of Bonds in respect of which the option is exercised.

### **Issuer's Redemption**

The option of the Issuer provided for in Conditions 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions.

### **Transfers**

Transfers of interests in the Bonds represented by the Global Certificate will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

### **Cancellation**

Cancellation of any Bond represented by the Global Certificate by the Issuer following its redemption or purchase by the Issuer or its Subsidiaries will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in Schedule A to the Global Certificate.

### **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obligated to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity

of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the Bondholders in respect of which the Global Certificate is issued.

The Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

## **USE OF PROCEEDS**

The net proceeds from the offering of the Bonds, after deducting commissions to be charged by the Managers and other estimated expenses payable in connection with the offering of the Bonds, will be approximately U.S.\$295.5 million. The net proceeds will be used for refinancing certain offshore existing indebtedness.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated total borrowings (both current and non-current portions), total equity and total capitalisation of the Issuer as at 31 December 2018 and adjusted to give effect to the issue of the Bonds. The summary consolidated financial information below should be read in conjunction with the Issuer's consolidated financial statements and the notes to those statements included elsewhere in this Offering Circular.

	<u>Actual</u>		<u>As adjusted</u>	
	<i>RMB</i> <i>(millions)</i>	<i>U.S.\$</i> <sup>(2)</sup> <i>(millions)</i>	<i>RMB</i> <i>(millions)</i>	<i>U.S.\$</i> <sup>(2)</sup> <i>(millions)</i>
<b>Short-term indebtedness:</b>				
Non-current liabilities due within one year . . . . .	4,013.2	583.7	4,013.2	583.7
Short-term borrowings . . . . .	<u>1,331.9</u>	<u>193.7</u>	<u>1,331.9</u>	<u>193.7</u>
<b>Total short-term indebtedness</b> . . . . .	<b><u>5,345.1</u></b>	<b><u>777.4</u></b>	<b><u>5,345.1</u></b>	<b><u>777.4</u></b>
<b>Long-term indebtedness:</b>				
Long-term loan . . . . .	6,673.1	970.6	6,673.1	970.6
Bonds payable . . . . .	7,119.8	1,035.5	7,119.8	1,035.5
Long-term payables . . . . .	574.6	83.6	574.6	83.6
Bonds to be issued . . . . .	—	—	2,062.7	300.0
<b>Total long-term indebtedness</b> . . . . .	<b><u>14,367.5</u></b>	<b><u>2,089.7</u></b>	<b><u>16,430.2</u></b>	<b><u>2,389.7</u></b>
<b>Total indebtedness</b> . . . . .	<b><u>19,712.6</u></b>	<b><u>2,867.1</u></b>	<b><u>21,775.3</u></b>	<b><u>3,167.1</u></b>
<b>Total equity</b> . . . . .	<b><u>20,885.7</u></b>	<b><u>3,037.7</u></b>	<b><u>20,885.7</u></b>	<b><u>3,037.7</u></b>
<b>Total capitalisation<sup>(1)</sup></b> . . . . .	<b><u>40,598.3</u></b>	<b><u>5,904.8</u></b>	<b><u>42,661.0</u></b>	<b><u>6,204.8</u></b>

<sup>(1)</sup> Total capitalisation represents the sum of total short-term indebtedness, total long-term indebtedness and total equity.

<sup>(2)</sup> The translation of Renminbi amounts into U.S. dollars, for convenience purpose, is made at a rate of RMB6.8755 to U.S.\$1.00 (the noon buying rate in New York City on 31 December 2018 as set forth in the weekly H.10 statistical release of the Board of Governors of the Federal Reserve System).

Since 31 December 2018, the Issuer incurred additional short-term borrowings in aggregate principal amount of RMB1.7 billion, long-term loans in aggregate principal of RMB0.1 billion and bonds payable in aggregate principal amount of RMB2.8 billion. Except as otherwise disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Issuer since 31 December 2018.

## DESCRIPTION OF THE GROUP

### OVERVIEW

The Group is the sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government and is wholly-owned by the Huai'an Municipal Government. Since its establishment in 2003, the Group has played an important role in implementing the Huai'an Municipal Government's blueprint for transportation infrastructure construction and has received strong financial and operational support from the Huai'an Municipal Government. The Group's operations are categorised into the following business segments: (i) infrastructure construction, (ii) transportation logistics, (iii) commercial trading and (iv) other businesses including restaurant operation, tourism and advertising.

As at 31 December 2016, 2017 and 2018, the consolidated total assets of the Group was approximately RMB36,964.4 million, RMB42,704.7 million and RMB44,593.9 million, respectively. For the three years ended 31 December 2016, 2017 and 2018, the operating incomes of the Group was approximately RMB1,537.7 million, RMB2,121.1 million and RMB2,405.9 million, respectively. For the year ended 31 December 2016, the Group had an operating loss of approximately RMB40.4 million, and for the years ended 31 December 2017 and 2018, the Group had operating profits of approximately RMB200.7 million and RMB187.8 million, respectively. With strong support from the Huai'an Municipal Government, the Group has expanded its business rapidly across its business segments in recent years. Set forth below is an overview of the Group's businesses:

- **Infrastructure construction:** The Group's infrastructure construction business involves the development of transportation infrastructure projects as well as the redevelopment of shantytown projects (棚戶區改造) and the construction of affordable housing projects (保障性住房建設) in Huai'an. As at 31 December 2018, the Group had financed and developed 75 infrastructure construction projects, and had invested an amount of approximately RMB14.3 billion in such projects. For the transportation infrastructure development business, the Group generates operating incomes mainly through construction fees in connection with the transportation infrastructure development projects that it conducted, as well as management fees the Group receives from projects it completed before 2014. For the shantytown redevelopment and affordable housing construction business, the Group is normally designated by the Huai'an Housing and Urban-rural Development Bureau (淮安市住房和城鄉建設局) to carry out the construction work. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the infrastructure construction business segment was RMB1,190.5 million, RMB1,616.6 million and RMB1,804.8 million, respectively.
- **Transportation logistics:** The Group operates its transportation logistics business through certain of its subsidiaries, including Huai'an Port Logistics Group and Huai'an Civil Airport Co., Ltd. This business segment mainly consists of seven sub-segments, namely, city bus transportation service, port operations and container logistics, airport operations, railroad operations and management, tram operations, highway tolls operations and public service. The Group generates operating incomes from the transportation logistics segment mainly through fees collected for the city bus transportation and the logistics services that the Group provided. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the transportation logistics business segment was RMB221.9 million, RMB244.4 million and RMB310.9 million, respectively.
- **Commercial trading:** The Group operates its commercial trading business through its subsidiaries, including Huai'an Traffic Investment Co., Ltd., Huai'an Riverstone Trading Co., Ltd. and Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. Huai'an Traffic Investment Co., Ltd. was founded in 1993 and is principally engaged in the sale of cement, cotton, and industrial chemicals. Huai'an Riverstone Trading Co., Ltd. was founded in 2003 and is principally engaged in the sale of small household appliances. Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. was founded in 1998 and is principally

engaged in the production and sale of plastic pipes and fittings. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the commercial trading business segment was RMB88.9 million, RMB188.6 million and RMB217.7 million, respectively.

- **Other businesses:** The Group also invests in and operates other businesses, such as restaurant operation, tourism, and advertising. The Group invests in and operates its tourism business in Huai'an, which is a famous city known for its long history and rich culture. Huai'an is located at the intersection of Huai River and the Jinghang Grand Canal, and it has long been a key transportation hub in the region and is widely expected to be developed into an international and modern city. By acquiring a number of quality assets and resources, the Group intends to further expand its restaurant operation and tourism businesses. For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the other businesses business segment was RMB36.4 million, RMB71.5 million and RMB72.6 million, respectively.



## HISTORY AND DEVELOPMENT

The Issuer is a state-owned company wholly-owned by the Huai'an Municipal Government. The Huai'an Municipal Government approved the establishment of the Issuer with the aim of raising funds for major transportation infrastructure construction projects in Huai'an and for the development of such infrastructure projects. The Issuer was incorporated in 2003 by the Huai'an Municipal Government with an initial registered capital of RMB102.9 million. As at 31 December 2018, the Group had total assets of RMB44,593.9 million.

The following are a number of key events that occurred and accolades and awards received in the development of the Group:

- |      |   |
|------|---|
| 2003 | <ul style="list-style-type: none"><li>• Huai'an Traffic Holding Co., Ltd. was founded.</li></ul>  |
| 2004 | <ul style="list-style-type: none"><li>• The construction of Huai'an New Port was completed.</li><li>• The Huai'an Municipal Government granted the Group 2,000.0 mu of land.</li></ul>  |
| 2008 | <ul style="list-style-type: none"><li>• The Group established a standard and mechanism for its parent-subsidiary operations and management structure.</li><li>• The construction of Yuxin Road and Yanhe Road undertaken by the Group as part of the Huai'an Municipal Government's "4221" key projects officially began.</li></ul>   |
| 2009 | <ul style="list-style-type: none"><li>• In order to strengthen the Group's credit rating and in accordance with the Huai'an Municipal Government's "Opinion on Implementation of Speeding Up Major Transportation Construction", the Huai'an Municipal Government allocated an annual land listing quota of approximately 300.0 mu of land to the Group.</li></ul>  |
| 2010 | <ul style="list-style-type: none"><li>• The Group was appointed as the representative of the Huai'an Municipal Government for the investment of the Suhuai railway project.</li><li>• Huai'an State-owned Assets Supervision and Administration Commission (the "Huai'an SASAC") transferred its 78.7 per cent. equity interest in Huai'an New Port Railway Co., Ltd. to the Group on a gratuitous basis.</li><li>• The Group was recognised as a "Civilised Unit in Jiangsu Province" by Jiangsu Provincial Steering Committee for Ideological and Ethical Advancement.</li><li>• The Group was awarded the "State-Owned Asset Management Advanced Group Award" by the Huai'an Municipal Government.</li></ul> |
| 2011 | <ul style="list-style-type: none"><li>• The Huai'an Municipal Government agreed to transfer its 99.0 per cent. equity interest in Huai'an Civil Airport Co. Ltd. to the Group on a gratuitous basis.</li></ul>  |

- The Group was recognised as a “Civilised Unit in Jiangsu Province” by Jiangsu Provincial Steering Committee for Ideological and Ethical Advancement.
  - The Group was awarded the “Transportation Construction Service Advanced Group Award” by the Huai’an Municipal Government.
- 2012
- The Group was awarded the “Comprehensive Social Management and Safe Construction Work Advanced Group Award” by the Huai’an SASAC.
  - The Group was honoured with the “Huai’an May 1st Labour Medal” by the Huai’an Municipal Government.
  - The Group was awarded the “Safe Production Advanced Group Award” by Huai’an SASAC.
  - The Group was recognised as a “Civilised Unit in Jiangsu Province” by Jiangsu Provincial Steering Committee for Ideological and Ethical Advancement.
- 2013
- The Group was awarded the “Safe Production Advanced Group Award” by Huai’an SASAC.
  - The Group was honoured with the “Huai’an May 1st Labour Medal” by the Huai’an Municipal Government for the second consecutive year.
- 2015
- The Group established Huai’an City Public Transportation Co., Ltd.
  - The Group established Huai’an Railway Investment Co., Ltd.
- 2016
- The Group received an asset injection of approximately RMB12.9 billion in June 2016.
  - The Group established Huai’an Port Logistics Group Co., Ltd.
  - The Group was recognised as a “Civilised Unit in Jiangsu Province” by Jiangsu Provincial Steering Committee for Ideological and Ethical Advancement.
  - The Group acquired 100 per cent. of equity interest of Huai’an Modern Tram Co., Ltd.
- 2017
- The construction of Huai’an New Port Phase II was completed and the first foreign trade route via Huai’an New Port was opened.
  - The Group was recognised as an “Enterprise with Harmonious Labour Relations” by Huai’an Tripartite Committee for Coordination of Labor Relations.

2018

- The Group entered into a strategic cooperation agreement with Huai'an Grain Bureau (淮安市糧食局) in July 2018 for the purpose of promoting grain industry, advertising local agricultural products and strengthening agricultural supply side structural reform of Huai'an.
- The Group entered into a strategic cooperation agreement with Hongze District Government (洪澤區政府) in August 2018 relating to project construction, industrial upgrading and talent cultivation to further develop Hongze District.
- Huai'an Huailiang Holdings Co., Ltd. entered into a strategic cooperation agreement with Jiangsu Yangzi Evening News Co., Ltd. (江蘇揚子晚報有限公司) in September 2018 to better promote advertising of the Group.
- The Group entered into a strategic cooperation agreement with Huai'an Industrial Park Management Committee (淮安工業園區管理委員會) in September 2018 to jointly develop Huai'an Flavour Millennium Ecological Garden Complex Project (淮味千年田園綜合體項目).

## COMPETITIVE STRENGTHS

The Group believes that its competitive strengths outlined below distinguish it from its competitors and are important to its success and future development:

### **The sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government**

The Group is the sole investment and financing platform for transportation infrastructure construction of the Huai'an Municipal Government and is wholly-owned by the Huai'an Municipal Government. Since its establishment in 2003, the Group has played an important role in implementing the Huai'an Municipal Government's blueprint for transportation infrastructure construction and has received strong financial and operational support from the Huai'an Municipal Government, such as grants, subsidies, asset injections, and capital injections. The Group has participated in most of Huai'an's key transportation infrastructure construction projects, such as the construction of Jinghu Expressway Huai'an Section, Xiangyu Road, Tianjin Road Grand Canal Bridge and the Huai'an Lianshui Airport. The Group has grown into a leading state-owned enterprise in the Jiangsu province.

Huai'an is located in the area key to merchandise and energy transportation traffic in Jiangsu province. It is situated at the intersection of Old Huai River and the Jinghang Grand Canal, making it a key water transportation hub connecting the "One Belt One Road" route with the East Longhai Economy Belt. As a transportation hub of both Jiangsu province and the northern Yangtze delta area, Huai'an and its transportation infrastructure have played an important role in the development of Jiangsu province.

In the "Thirteenth Five Year Plan" period, the Huai'an Municipal Government announced its intention to further increase its spending in railway and water transportation infrastructure constructions. This plan contemplates a greater number of complex national and provincial level transportation infrastructure projects as compared to the "Twelfth Five Year Plan". As the sole investment and financing platform for transportation infrastructure construction of Huai'an and a company wholly-owned by the Huai'an Municipal Government, the Group expects to obtain more government procurement contracts and grow with the Huai'an transportation infrastructure network.

### **The Group's quality assets and the stable cash flow generated from such quality assets**

The Group has a portfolio of high-quality assets under the Group's infrastructure construction and transportation logistics businesses. These high-quality assets include Xiangyu Road, National Highway No. 205 Huai'an Section, Provincial Highway No. 237 Huai'an Section, Provincial Highway No. 327 Lianshuicheng to Shihu Section, Suhai Expressway West Huai'an Connection Road, Tianjin Road Grand Canal Bridge, Huai'an Lianshui Airport, three boat locks, 526.3 km of city canals, and 623.4 km of city main roads. Most of the Group's high-quality assets are located in important areas of Huai'an with high traffic flow, and such assets as a whole make up the backbone of the Huai'an transportation network. With the development of Huai'an's economy and the increase in Huai'an's traffic volume, the Group's quality assets have become more valuable. In addition, as at the date of this Offering Circular, the Huai'an Lianshui Airport second phase expansion project is under construction. This expansion will increase the Huai'an Lianshui Airport's passenger and cargo handling capacity and the Group expects to benefit from the increased passenger and traffic volume due to the expansion.

The quality assets that the Group owns generate stable and healthy cash flow for the Group, which in turn funds the growth of the Group's infrastructure construction and transportation logistics businesses. Since the day-to-day functions of Huai'an's economy depend on Huai'an's transportation infrastructures, which the Group owns an important part of, there is a stable demand for using the Group's quality assets and such assets generate stable cash flow for the Group. In addition, the Huai'an Municipal Government pays the Group an annual management fee for the Group's transportation infrastructures developed, creating a stable source of cash flow for the Group.

### **Strong support from the Huai'an Municipal Government**

As a wholly-state owned enterprise and the sole investment and financing platform for transportation infrastructure development of the Huai'an Municipal Government, the Group enjoys strong support from the Huai'an Municipal Government. In addition, Huai'an SASAC has enhanced the Group's financial strengths by increasing the share capital of the Group over the past years and injecting a number of quality assets into the Group to further strengthen its financial position. The Group has also received government grants and subsidies over the years. The strong and continued support from Huai'an SASAC and the Huai'an Municipal Government greatly increased the business strength and comprehensive competitiveness of the Group, which in turn contributes to the future growth of the Group.

### **Strong financial profile with access to multiple sources of capital**

As at 31 December 2018, the Group had total assets and current assets amounted to RMB44.6 billion and RMB19.1 billion, respectively, as compared to total liabilities and current liabilities of RMB23.7 billion and RMB9.1 billion, respectively. As at 31 December 2018, the Group had asset-to-liability ratios of 53.2 per cent. With well-established operations in various business segments, the Group has a proven track record of raising finance and repaying debts, and its strong credit worthiness has been recognised by domestic rating agencies.

The Group is the sole investment and financing platform for transportation infrastructure construction projects established by the Huai'an Municipal Government to attract funds from different sources to Huai'an. The Group has established strategic co-operation relationships with a number of reputable financial institutions including China Development Bank, China Minsheng Bank, Hengfeng Bank, China Guangfa Bank, Bank of Communications, Industrial and Commercial Bank of China, Bank of China, China Merchants Bank, China Construction Bank, Shanghai Pudong Development Bank, Bank of Nanjing, Huishang Bank, Evergrowing Bank, Huaxia Bank and Bank of Jiangsu. As at 31 December 2018, the Group had a total approved credit line of RMB13.0 billion, of which RMB8.5 billion has been utilised. As at 31 December 2018, the Group had successfully issued various series of debt securities in the domestic capital market of the PRC amounting to a total of RMB9,375.0 million. The Group had also raised, through trust financing, a total of RMB500.0 million as at 31 December 2018. The Group

plans to increase the proportion of direct financing from the capital markets in the future and to build a diversified financing structure comprised of project loans, corporate bonds, medium term notes, short-term notes, trust financing and other creative financial products.

#### **Experienced management team with sound corporate governance**

The Group's management team has extensive experience in the various businesses of the Group, including infrastructure construction, commercial trading and tourism. Many members of the Group's management team also serve, or have served, in various positions of the Huai'an Municipal Government. Their understanding of the regulatory framework and government policies plays a significant role in the development of the Group's business. The Group believes that its management team's extensive experience in a broad range of industries and strong execution capabilities contribute to the Group's sustainable growth and will enable the Group to capture market opportunities as they arise.

In addition, the Group's operation teams in all of the Group's business segments are led by professionals with extensive experience in operation and management of the relevant industries of the Group's business and supported by a highly skilled and well-trained workforce. Throughout its years of operation and management of its various businesses, the Group has been able to maintain effective and efficient management and operational control over its key subsidiaries. The Group has adopted a commercially driven approach to managing its business operations while leveraging on its established relationship with governmental authorities with a view to maximising its growth potential. For further information, see "*Directors and Senior Management*".

### **BUSINESS STRATEGIES**

The Group's strategies are directed and approved by the Huai'an Municipal Government. The objective of the Group is to become a leading enterprise in the transportation infrastructure development industry. The Group intends to achieve its objective by implementing the following strategies:

#### **Further strengthen the infrastructure construction business**

Capitalising on Huai'an's rapidly growing demand for infrastructure construction, the Group plans to continue to maintain and expand its leading market position in infrastructure development in Huai'an. The Group will improve its infrastructure construction business and continue to procure major projects. Such construction projects could bring significant positive influence on the overall development of Huai'an and such influence could exert a driving effect on other industries that the Group conducts business in.

#### **Further explore innovative financing channels and expand the financing sources of the Group**

In order to realise the capital balance and satisfy the demand for its construction funding, the Group plans ahead of time and takes proactive measures in the conduct of its financing activities. In addition, the Group plans to raise funds through multi-channel financing and further develop innovative financing channels. In implementing this strategy, the Group aims to utilise a wide range of financing channels including bond issuance, project loans from banks and innovative financing modes such as trust financing and financial leasing, which helps to build a diversified and advanced financing structure for the Group. Furthermore, the Group plans to focus on lowering its financing cost. It seeks to control the cost of indirect financing below the benchmark interest rate as well as the cost of direct financing.

#### **Further improve the synergies among the Group's different business segments**

The Group intends to further improve the synergies between its various business segments. The Group also intends to improve its overall management efficiency to strengthen the support from its core business segments to its other ancillary business segments, including financial and logistics support, as well as market information sharing. The Group will also enhance the communications among its sales and marketing teams of different business segments, so that the Group can keep track of the latest market trends and business opportunities.

### **Continue to adopt centralised management of the Group’s capital and a prudent financial policy to control cost and improve profitability**

The Group will continue to adopt a centralised management system to manage and to achieve efficient deployment of the Group’s capital. The Group also plans to continue to adopt a prudent financial and risk management policy and further improve its financial control system to control costs and improve profitability. The Group believes that these measures will further enhance its competitive advantage and help to achieve sustainable growth of the Group.

### **Attract, motivate and cultivate high-quality talent**

The Group believes that its human resources are its most important asset and that its continued ability to compete effectively in existing businesses and expand into new business areas depends on its ability to attract, motivate and retain talent. The Group plans to further enhance its comprehensive training programs to improve the skills and knowledge base of its employees. The Group also seeking to motivate and retain high-quality talent through its performance-based compensation system, reinforce their commitment to the Group’s culture and promoting a cohesive work environment.

## **RECENT DEVELOPMENTS**

### **Interim Results as at and for the Six Months Ended 30 June 2019**

As at 30 June 2019, as compared to the financial information as at 31 December 2018, the Group’s short-term loan increased primarily due to an increase in bank loans; the Group’s notes payable increased primarily due to an increase in bank’s acceptance bills issued by the Group; the Group’s debts payable increased primarily due to an increase in bonds issued in the domestic capital markets. As a result of aforementioned reasons, the Group’s total liabilities increased as at 30 June 2019 compared to the financial information as at 31 December 2018. For the six months ended 30 June 2019, the Group experienced increases in operating costs and management expenses as compared to the same period in the preceding year, primarily due to an accompanying increase in operating incomes. Furthermore, the Group experienced a decrease in other income in the six months ended 30 June 2019 compared with the same period in the previous year, primarily due to a decrease in non-recurring government subsidies. As a result of aforementioned reasons, the Group’s net profits for the six months ended 30 June 2019 decreased compared to the same period in the preceding year. Such financial information has not been subject to an audit or review by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review.

Potential investors must exercise caution when using such data to evaluate the Group’s financial condition and results of operations. The financial information as at and for the six months ended 30 June 2019 should not be taken as an indication of the Group’s expected financial condition or results of operations as at and for the full financial year ending 31 December 2019. See “*Risk Factors – Risks Relating to the Group’s Business – The Issuer published and may continue to publish periodical financial information in the PRC pursuant to applicable PRC regulatory rules. Investors should be cautious and not place undue reliance on the Issuer’s unaudited and unreviewed financial information or the discussion of material financial trends in relation to the Issuer’s unaudited and unreviewed financial information as at and for the six months ended 30 June 2019.*”

## **DESCRIPTION OF THE GROUP’S BUSINESS**

Over the years, the Group has primarily focused on financing and developing transportation infrastructure in Huai’an. In recent years, the Group has been involved in shantytown redevelopment and affordable housing construction business as part of its primary business. The Group has also diversified its business portfolio to include transportation logistics, commercial trading and other businesses such as restaurant operation, tourism, and advertising, from which the Group has recorded a relatively smaller percentage of its total operating incomes.

The Group is the sole investment and financing platform for transportation infrastructure construction in Huai'an. By injecting high-quality transportation infrastructure assets into the Group, the Huai'an Municipal Government plans to build the Group into a platform which integrates the transportation infrastructures in Huai'an into a unified transportation system.

The following table sets out a breakdown of the Group's operating incomes by business segment for the periods indicated:

	Years ended 31 December					
	2016		2017		2018	
	<i>Amount</i> <i>(RMB'000)</i> <b>(audited)</b>	%	<i>Amount</i> <i>(RMB'000)</i> <b>(audited)</b>	%	<i>Amount</i> <i>(RMB'000)</i> <b>(audited)</b>	%
<b>Business segment</b>						
Infrastructure construction . . . . .	1,190,467.4	77.4	1,616,636.8	76.2	1,804,822.0	75.0
Transportation logistics . . . . .	221,922.3	14.4	244,354.1	11.5	310,901.3	12.9
Commercial trading . . . . .	88,944.1	5.8	188,568.7	8.9	217,655.3	9.0
Other businesses <sup>(1)</sup> . . . . .	36,365.2	2.4	71,544.0	3.4	72,557.2	3.0
<b>Total operating incomes . . . . .</b>	<b>1,537,699.0</b>	<b>100.0</b>	<b>2,121,103.6</b>	<b>100.0</b>	<b>2,405,935.9</b>	<b>100.0</b>

*Note:*

- (1) Other businesses includes the "others" category under the "main business" and the "other businesses" on page F-90 of the audited consolidated financial statements as at and for the years ended 31 December 2016, 2017 and 2018 of the Issuer included elsewhere in this Offering Circular.

## **Infrastructure Construction Business**

### Overview

The Group's infrastructure construction business mainly includes the development of transportation infrastructure projects as well as the redevelopment of shantytown projects and the construction of affordable housing projects in Huai'an. For the transportation infrastructure development business, the Group generates operating incomes mainly through construction fees in connection with the transportation infrastructure development projects that it conducted and management fees the Group receives from projects it completed before 2014. For the shantytown redevelopment and affordable housing construction business, the Group is normally designated by the Huai'an Housing and Urban-rural Development Bureau to carry out the construction work. As at 31 December 2018, the Group had completed 57 transportation infrastructure development projects and had 15 projects under construction. As at 31 December 2018, the Group had two shantytown redevelopment projects and an affordable housing construction project under construction.

For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by its infrastructure construction business segment was RMB1,190.5 million, RMB1,616.6 million and RMB1,804.8 million, respectively, representing 77.4 per cent., 76.2 per cent. and 75.0 per cent., respectively, of the Group's total operating incomes for the same periods.

### **Transportation Infrastructure Development**

The Group undertakes transportation infrastructure development projects primarily through the Issuer and its subsidiary, Jiangsu Jetta Traffic Engineering Group Co., Ltd. ("**Jetta Company**"). As at 31 December 2018, the Group had participated in 72 transportation infrastructure development projects in Huai'an, and had invested a total amount of approximately RMB13.1 billion in such projects.

## Business Model

The Group is typically selected as a general contractor to carry out transportation infrastructure development through a public tender process. The Group has adopted two methods when undertaking transportation infrastructure development projects, where it either (i) undertakes the construction work by itself or (ii) outsources the construction work to independent third party sub-contractors. The fees payable to the Group under these projects is fixed, however, in the event of significant fluctuation in the price of construction materials, the Group may renegotiate and adjust fees based on the then prevailing market price of key construction materials. The Group is entitled to the payments based on the progress of each project. The final payment serves as a quality guarantee deposit, which is payable to the Group within two years after the project is completed. In addition, the Group has been receiving RMB194.8 million of management fees annually from the Huai'an Municipal Government, as payments for the Group's investment in certain infrastructure construction projects in Huai'an prior to 2014, according to the Approval Related to Adjusting the Accounts of Huai'an Traffic Holding Co., Ltd. by the Huai'an Municipal Government (Huai Zheng Fu [2014] No. 89)(淮安市人民政府關於同意調整淮安市交通控股有限公司部分會計科目的批復)(淮政複[2014]89號). The annual payments began in 2014 and the Group expects such payments to continue until the Huai'an Municipal Government repurchases the related infrastructures.

The Group finances its transportation infrastructure development projects with internal working capital and external financing. The Group's internal working capital mainly comes from self-generated revenue; for its external financing, the Group has established strategic co-operation relationships with a number of reputable financial institutions including China Development Bank, China Minsheng Bank, Hengfeng Bank, China Guangfa Bank, Bank of Communications, Industrial and Commercial Bank of China, Bank of China, China Merchants Bank, China Construction Bank, Shanghai Pudong Development Bank, Bank of Nanjing, Huishang Bank, Evergrowing Bank, Huaxia Bank and Bank of Jiangsu. As at 31 December 2018, the Group had a total approved credit line of RMB13.0 billion, of which RMB8.5 billion has been utilised. As at 31 December 2018, the Group had successfully issued various series of debt securities in the domestic capital market of the PRC amounting to a total of RMB9,375.0 million. The Group had also raised, through trust financing, a total of RMB500.0 million as at 31 December 2018.

## Project Description

### Completed Projects

As at 31 December 2018, the Group had completed 57 transportation infrastructure development projects with a total investment amount of approximately RMB5.0 billion. The particulars of the Group's major completed projects as at 31 December 2018 in terms of total investment are set forth below:

<u>Project</u>	<u>Year of Commencement</u>	<u>Year of Completion</u>	<u>Total Investment<sup>(1)</sup></u>	<u>Return on Investment</u>
			<i>(RMB'000)</i>	
Provincial Highway No. 503 Huai'an Airport Connection Line Construction Project (503省道淮安機場連接線工程) . . . . .	2015	2017	427,430.0	199,000.0
Hainan Provincial Highway No. S301 Jialong Line and S302 Huangtun Line Reconstruction Project (海南省省道S301嘉龍線、S302黃屯線改造工程) . . . . .	2015	2016	224,620.0	217,000.0
Hehuaidang Scenic Spot of Jinhu County Highway Construction Project (金湖縣荷花蕩景區旅遊公路工程) . . . . .	2014	2016	202,990.0	82,000.0
Suzhou to Yangzhou Expressway Jiangsu Section Project (宿州至揚州高速江蘇段工程) . . . . .	2014	2017	127,000.0	117,000.0

(1) Represents the actual amount that has been invested, which is derived from the Group's internal records.

### Projects under Construction

As at 31 December 2018, the Group had 15 transportation infrastructure development projects under construction with a total estimated amount of investment of RMB10.3 billion, of which RMB8.1 billion has been incurred. The particulars of the Group's five largest transportation infrastructure construction projects under construction as at 31 December 2018 in terms of total estimated investment are set forth below:

Project	Year of Commencement	Expected Year of Completion	Total Estimated Investment <sup>(1)</sup>	Return on Investment
			(RMB'000)	
Zhongshan to Kaiping Expressway and Xiaolan Branch Line Construction Project (中山至開平高速公路及小欖支線項目) . . . . .	2017	2019	1,552,180.0	330,000.0
Lianshui Airport Phase II (漣水機場二期) . . . . .	2016	2019	699,000.0	110,792.0
Main Construction Project of Huai'an Expressway Project Phase I HA-KSL-1 Section (淮安市快速公路一期建設工程主體施工項目HA-KSL-1標) . . . . .	2016	2019	644,050.0	349,000.0
Haian to Qidong Expressway HQ-22 Section (海安至啟東高速公路HQ-22標) . . . . .	2018	2020	526,000.0	241,000.0
Changzhou to Yixing Expressway CY-YX1 (常州至宜興高速公路CY-YX1) . . . . .	2017	2019	402,970.0	92,000.0

(1) Represents the estimated total cost to be incurred for the project, which is derived from the Group's internal records the actual cost incurred upon completion may differ from such estimation.

### Projects under Planning

As at 31 December 2018, the Group had no transportation infrastructure development projects under planning.

### Shantytown Redevelopment and Affordable Housing Construction

The Group conducts its shantytown redevelopment and affordable housing construction business primarily through its subsidiaries Huai'an Traffic Holdings Property Co., Ltd. (淮安市交通控股置業有限公司). As at 31 December 2018, the Group had two shantytown redevelopment projects and an affordable housing construction project under construction with a total estimated investment of approximately RMB4.1 billion. As at 31 December 2018, the Group had not generated any operating income from the shantytown redevelopment and affordable housing construction business mainly due to the payment plan of the shantytown redevelopment and affordable housing construction business.

#### Business Model

The Group is engaged by the Huai'an Housing and Urban-rural Development Bureau to undertake the shantytown redevelopment projects and enters into a project agreement with the Huai'an Housing and Urban-rural Development Bureau for each project, which typically provides the details of the key aspects of the project, such as the scale of the project, construction and project management schedule, term, and payment schedule. The Group normally conducts the financing for the shantytown redevelopment projects. After completion of the shantytown redevelopment projects, the Group will be entitled to a sum amount as agreed in the project agreement, composing of the project cost plus a premium thereon at a pre-fixed rate. Such payable amount will be paid by the Huai'an Municipal Government in instalments as stipulated in the project agreement, usually ranging from 20 to 25 years.

## Project Description

### *Projects under Construction*

As at 31 December 2018, the Group had two shantytown redevelopment projects and an affordable housing construction project under construction with a total estimated investment of approximately RMB4.1 billion. The particulars of the Group's shantytown redevelopment and affordable housing construction projects under construction as at 31 December 2018 are set forth below:

<u>Project</u>	<u>Year of Commencement</u>	<u>Expected Year of Completion</u>	<u>Site Area</u> <i>(sq.m.)</i>	<u>Total Estimated Investment</u> <i>(RMB'000)</i>
Shantytown Redevelopment Project Phase I (2016 Shantytown Redevelopment Project Phase III)(棚戶區改造項目一期(2016年棚戶區改造項目三期工程)) . . . . .	2016	2019	200,200.0	2,340,000.0
Shantytown Redevelopment Project Phase II (2017 Shantytown Redevelopment Project (Urban Villages) Phase III)(棚戶區改造項目二期(2017年棚戶區(城中村)改造項目三期工程)) . . . . .	2017	2019	113,573.3	1,480,000.0
He Yan Yuan Affordable Housing Project (河宴園保障房項目) . . . . .	2017	2019	15,481.9	250,000.0
<b>Total</b> . . . . .			<b>329,555.2</b>	<b>4,070,000.0</b>

## Transportation Logistics Business

The Group operates its transportation logistics business mainly through its subsidiaries, including Huai'an Port Logistics Group, Huai'an City Public Transportation Co., Ltd., Huai'an Modern Tram Co., Ltd., Huai'an Civil Airport Co., Ltd and Huai'an Jianghuai Public Services Co., Ltd. This business mainly consists of seven sub-segments, namely, city bus transportation service, port operations and container logistics, airport operations, railroad operations and management, tram operations, highway tolls operations and public service.

For the three years ended 31 December 2016, 2017 and 2018, the Group's operating incomes generated by the transportation logistics segment was RMB221.9 million, RMB244.4 million, and RMB310.9 million, respectively, representing 14.4 per cent., 11.5 per cent. and 12.9 per cent., respectively, of the Group's operating incomes for the same periods.

### *City Bus Transportation Service*

#### Overview

The Group operates its city bus transportation service through its wholly-owned subsidiary, Huai'an City Public Transportation Co., Ltd., which is the sole city bus transportation service provider in Huai'an City, which has the qualification in operating city bus transportation and also conducts car leasing, car repairs and bus advertising businesses. The Group is mainly engaged in the city bus transportation service in Huai'an. As at 31 December 2018, the Group operated 95 city bus lines with 2,178 stations and a total length of 1,717.3 kilometres in Huai'an.

For the years ended 31 December 2016, 2017 and 2018, operating income generated from the Group's city bus transportation service business segment amounted to RMB72.6 million, RMB74.8 million and RMB81.9 million, respectively. The Group received subsidies for its city bus transportation service business in the amount of RMB107.4 million and RMB133.8 million in 2017 and 2018, respectively.

#### Business Model

The Group primarily generates operating incomes from the fares of its city bus transportation service. Bus fares in Huai'an City are valorised by the government pricing for public products, which is RMB2.0 or RMB3.0 per person for air-conditioned bus and RMB1.0 or RMB2.0 per person for non-air-

conditioned bus. There are two categories of the tickets for passengers: one-way ticket and pre-charged IC card. The Group has also received annual government subsidies from the Huai'an Municipal Government for its buses.

### ***Port Operations and Container Logistics***

The Group operates its port operations business through its subsidiary, Huai'an New Port Harbour Co., Ltd, which was founded on 17 August 2004 with a registered capital of approximately RMB26.0 million. This subsidiary operates the port operations business at Huai'an New Port in Huai'an, Jiangsu province. It handles various categories of items and the majority of which are steel, coal and gravel. Huai'an New Port is strategically located at the confluence of Liyun River and the Huai'an District section of the Jinghang Grand Canal and it is in close proximity to major international shipping routes. With ice-free port conditions, Huai'an New Port is able to operate its terminals year round. Huai'an New Port also benefits from the growing economy of Jiangsu and the increasing volume of trade in the region. The business has an integrated multi-modal transportation system comprising various methods of transportation, including water, road, railway and pipelines. In addition, it has a well-established sea-to-rail intermodal transportation network that hosts one of the largest volumes of sea-to-rail intermodal transportation among similar-sized ports in the PRC. Its advanced port operational system provides crucial support for its development of high-end logistics businesses.

The Group is engaged in the provision of loading and discharging and logistics services. The Group's terminal operation is equipped with advanced facilities, including two gantry cranes, a reach stacker, eight circular fixed cranes, two ship loaders, six stacking machines, nine forklifts and four conveyor belts. As at phase one, the port takes up an area of 370.0 mu, with a shoreline dock length of 518.0 metres, anchorage area of 315.0 metres, eight berths that can accommodate 500.0 tonnes to 2,000.0 tonnes, water mooring area of 120,000.0 square metres, storage yard area of 150,000.0 square metres and storage capacity of 300,000.0 tonnes. The Group has also obtained the approval to accommodate vessels with transportation capacities of up to 2,485.0 deadweight tonnage. The following table sets forth the throughput handled by the New Port Harbour Co., Ltd. for the periods indicated:

	<b>Years ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>('000 tonnes)</i>	<i>('000 tonnes)</i>	<i>('000 tonnes)</i>
Steel . . . . .	45.5	94.1	132.6
Coal . . . . .	15.4	28.1	23.2
Mineral powders . . . . .	0.0	27.4	0.4
Gravel . . . . .	1,188.0	1,321.1	1,383.2
Others . . . . .	17.1	-	75.2
<b>Total</b> . . . . .	<b>1,266.0</b>	<b>1,470.8</b>	<b>1,614.5</b>

The Group operates its container logistics business through Huai'an International Container Logistics Co., Ltd. and Jiangsu Jianghuaitong Container Shipping Co., Ltd. The business's container terminals can accommodate container vessels with a loading capacity of 30,000 tonnes and can connect to almost all domestic and overseas ports via direct ship routes and transfers. In addition, it has a well-established sea-to-rail intermodal transportation network that hosts one of the largest volumes of sea-to-rail intermodal transportation among all similar-sized ports in China. The business has obtained the approval to accommodate vessels that can carry up to 96.0 Twenty Foot Equivalent Unit ("TEU") of cargo. The throughput for the container logistics business handled by Huai'an International Container Logistics Co., Ltd. for the three years ended 31 December 2016, 2017 and 2018 was 100,984.0 TEU, 110,943.0 TEU and 143,335.0 TEU, respectively.

For the three years ended 31 December 2016, 2017 and 2018, the Group's operating income generated by the port operations and container logistics business was approximately RMB37.8 million, RMB70.2 million and RMB77.8 million, respectively.

### ***Airport Operations***

The Group operates its airport operations business through its subsidiary Huai'an Civil Airport Co., Ltd. The subsidiary operates Huai'an Lianshui Airport, the main gateway to Huai'an. Huai'an Lianshui Airport is located approximately 230.0 km north of Nanjing, the provincial capital of Jiangsu province. Construction of Huai'an Lianshui Airport began on August 2008 and the commercial operations of Huai'an Lianshui Airport commenced in September 2010. The Huai'an Lianshui Airport Phase II expansion project commenced in April 2016 and the commercial operations of the expanded areas of Huai'an Lianshui Airport commenced in April 2018. Huai'an Lianshui Airport has one 2,800 metres long runway, an airport terminal with a total gross floor area of 14,700 square metres and 15 parking bays. In 2018, Huai'an Lianshui Airport had an annual handling capacity of approximately 1,520,000 passenger arrivals and departures and 6,286.0 tonnes of cargo.

The Group generates operating incomes from its airport operations business mainly by charging airplane landing and take-off fees, passenger fees, ground service fees and cargo transportation fees. For the three years ended 31 December 2016, 2017 and 2018, the Group's passenger throughput was approximately 861,500 passengers, 1,286,300 passengers and 1,520,000 passengers, respectively. For the three years ended 31 December 2016, 2017 and 2018, the cargo throughput was approximately 4,637.0 tonnes, 5,006.7 tonnes and 6,286.0 tonnes, respectively. For the three years ended 31 December 2016, 2017 and 2018, the Group's flights arrivals and departures amounted to approximately 23,215 times, 15,385 times and 26,082 times, respectively.

### ***Railroad Operations and Management***

The Group operates its railroad operations and management business through its subsidiary Huai'an New Port Railway Co., Ltd. The subsidiary operates and manages a major freight railroad, namely the Huai'an New Port Special Railroad, which is primarily engaged in the rail transportation of raw materials primarily in Jiangsu and, via interchange with other rail carriers, to and from other parts of the PRC.

The Group generates operating incomes from its railroad operations and management business by charging fees for providing transportation, loading and unloading, storage, and leasing services. The following table sets forth the throughput handled by the Group for the periods indicated:

	Years ended 31 December		
	2016	2017	2018
	('000 tonnes)	('000 tonnes)	('000 tonnes)
Coal .....	214.7	216.7	207.8
Coke .....	0.0	0.0	0.0
Alloy .....	0.0	1.1	0.0
Others .....	0.0	0.0	0.0
<b>Total</b> .....	<b>214.7</b>	<b>217.8</b>	<b>207.8</b>

### ***Tram Operations***

The Group engages in tram operations, tram maintenance, tram advertising and leasing businesses through its wholly-owned subsidiary, Huai'an Modern Tram Co., Ltd. Huai'an Modern Tram Co., Ltd. operates its tram transportation business with the energy-efficient and an environmental-friendly principles. As a new means of transportation, the tram system has become a special feature of Huai'an. Huai'an Modern Tram Co., Ltd. commenced trial operations of its tram system in December 2015. As at the date of this Offering Circular, there is one tram line in operation extending from the City Stadium to Madian Connection Line. This tram line has 23 stops and is 20.1 km in length.

For the years ended 31 December 2016, 2017 and 2018, operating income generated from the Group's tram operations business segment amounted to RMB8.1 million, RMB12.5 million and RMB14.7 million, respectively. The Group received subsidies for its tram operations business in the amount of RMB33.0 million and RMB53.8 million in 2017 and 2018, respectively.

### **Highway Tolls Operations**

In accordance with the "Circular 87" entitled "Approval Related to Injecting Certain Toll Road Assets into Huai'an Traffic Holding Co., Ltd. by the Huai'an Municipal Government (市政府關於將部分收費公路資產注入市交通控股有限公司的批復)", the Huai'an Municipal Government injected the National Highway No. 205 Huai'an Section, Provincial Highway No. 237 Huai'an Section and Provincial Highway No. 327 Liangshuicheng to Shihu Section into the Group. The length of the three first-grade toll highways totals 127.8 km. As at the date of this Offering Circular, the construction of the three highways is completed and all of the highways' toll stations are under construction. The following table sets out the information of the three toll highways as at 31 December 2018:

<b>Project</b>	<b>Date(s) of Completion</b>	<b>Total Length (km)</b>
National Highway No. 205 Huai'an Section (205國道淮安段) . . . . .	2014	42.2
Provincial Highway No. 237 Huai'an Section (237省道淮安段) . . . . .	2013	50.7
Provincial Highway No. 327 Liangshuicheng to Shihu Section (327省道漣水城至石湖段) . . . . .	2011	35.0

### **Commercial Trading Business**

The Group operates its commercial trading business through its subsidiaries, including Huai'an Traffic Investment Co., Ltd., Huai'an Riverstone Trading Co., Ltd. and Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. Huai'an Traffic Investment Co., Ltd was founded in 1993 and is principally engaged in the sale of cement and steel. Huai'an Riverstone Trading Co., Ltd. was founded in 2003 and is principally engaged in the sale of small household appliances. Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd was founded in 1998 and is principally engaged in the production and sale of plastic pipes and fittings.

The Group is the exclusive distributor of certain household appliance brands in Huai'an, and it generates operating incomes from its commercial trading business by selling construction materials directly and selling household appliances through its distribution network. The Huai'an Municipal Government subsidises the Group's household appliance trading business and such subsidies make up a large portion of operating incomes generated from the commercial trading business segment.

For the three years ended 31 December 2016, 2017 and 2018, the Group's operating income generated by commercial trading business segment was approximately RMB88.9 million, RMB188.6 million and RMB217.7 million, respectively, representing 5.8 per cent., 8.9 per cent. and 9.0 per cent, respectively, of the Group's total operating incomes for the same periods.

The following table sets forth details regarding the major products sold in the Group's commercial trading business for the periods indicated:

	<b>Years ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Microwaves . . . . .	20,290.0	16,650.0	19,200.0
Fans and heaters . . . . .	750.0	920.0	1,550.0
SUPOR small household electric appliances . . . . .	370.0	70.0	130.0
Steel . . . . .	–	44,830.0	33,490.0
Wheat . . . . .	–	17,160.0	–
Grain . . . . .	–	7,270.0	–
Cement . . . . .	740.0	7,820.0	970.0
Hardware mechanical and electrical products . . . . .	–	2,130.0	1,920.0
<b>Total</b> . . . . .	<b>22,150.0</b>	<b>96,850.0</b>	<b>57,250.0</b>

## **Other Businesses**

The Group also invests in and operates other businesses, such as restaurant operation, tourism, and advertising. For the three years ended 2016, 2017 and 2018, the Group's operating income generated by other businesses was approximately RMB36.4 million, RMB71.5 million and RMB72.6 million, respectively, representing 2.4 per cent., 3.4 per cent. and 3.0 per cent., respectively, of the Group's total operating incomes for the same periods.

## **INTERNAL CONTROLS**

The Group has extensive internal guidelines related to risk management and corporate management. The Group strives to standardise its investment activities and enhance its capital usage efficiency. The Group estimates the amount of capital needed according to its development needs, and it drafts an annual capital usage plan based on such estimates to more efficiently raise and invest capital. The Group has also established a healthy and comprehensive financial auditing mechanism that audits the capital usage and supervises the financial situation of the Group. In addition, the Group engages professional third parties to audit its annual reports and project cost reports.

As the sole shareholder of the Group, the Huai'an Municipal Government closely monitors, participates in and influences decisions relating to key investments and appointment of directors, supervisors and senior management of the Group. The Group and the Huai'an Municipal Government normally conduct detailed discussions and follow requisite appraisal procedures to ensure that informed and viable investment decisions are made. Major equity interest transfer transactions are required to be conducted through public bidding and auction sales based on terms and conditions approved by the Huai'an Municipal Government. As the Huai'an Municipal Government will continue to be the sole shareholder of the Group, the Group believes that the role of the Huai'an Municipal Government and its participation in the Group's operations distinguish the Group from other companies in the industries where it operates and will provide effective assurance for achieving its missions.

## **FINANCIAL POLICIES**

The Group aims to control its overall leverage ratio to below 55.0 per cent. at all times. The Issuer's finance department manages the capital of the Issuer and its subsidiaries to ensure the efficiency and safety of the Group's capital usage. The Issuer's Asset Management Department and Finance Department are responsible for supervising and coordinating the cash flow of the Issuer's subsidiaries, and all material capital uses must be approved by the Issuer's chief financial officer. The Group's financing plans must be passed by its general manager and its board of directors, and then be approved by the Huai'an Municipal Government and the Huai'an SASAC, before they can be carried out. To maintain enough liquidity, the Group plans to keep at least RMB1.0 billion in cash at all times for the next few years.

## **GOVERNMENT REGULATIONS**

The operations of the Group are subject to various laws and regulations in the jurisdiction in which it operates. The Group's properties are subject to routine inspections by government officials with regard to various safety and environmental issues. The Group believes that it is in compliance in all material respects with government regulations currently in effect in the jurisdictions in which it operates. The Group is not aware of significant problems experienced by any member of the Group with respect to compliance with government regulations in relation to its operations which could materially adversely affect its properties or operations, nor is it aware of any pending government legislation that might have a material adverse effect on its properties or operations.

## **EMPLOYEES**

As at 31 December 2018, the Group had approximately 3,000 employees. In accordance with the applicable regulations of local governments in regions that the Group has business operations, the Group makes contributions to the pension contribution plan, medical insurance, unemployment insurance, maternity insurance and personal injury insurance. The amount of contributions is based on the specified percentages of employees' aggregate salaries as required by relevant PRC authorities. The Group also makes contributions to an employee housing fund in accordance with applicable PRC regulations. In addition to statutory contributions, the Group provides annual bonuses and supplemental commercial insurance policies to employees.

The Group enters into an employment contract with each of its employees in accordance with applicable PRC laws. Such contracts include provisions on wages, vacation, employee benefits, training programmes, health and safety, confidentiality obligations and grounds for termination.

## **INSURANCE**

The Group also purchases pension insurance, unemployment insurance and medical insurance for its employees according to the relevant PRC laws and regulations. The Group maintains insurance coverage in amounts that it believes are consistent with its risk of loss and industry practice.

Consistent with what the Group believes to be customary practice in the PRC, it does not carry any business interruption insurance, key-man insurance or insurance covering potential environmental damage claims. Such insurance is not mandatory under the laws and regulations of the PRC, and such insurance is either unavailable in the PRC or requires substantial cost.

## **LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE**

The Group is from time to time involved in disputes and legal proceedings arising in the ordinary course of its business. To the best of its knowledge, there are no current litigation or arbitration proceedings against the Group or any of its directors as at the date of this Offering Circular that could have a material adverse effect on its financial condition or results of operations.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS

The board of directors (the “**Board**”) of the Company consists of six directors. The principal focus of the Board is on overall strategic development, internal control system and risk management system. The Board provides guidance on business plans and monitors the results of such plans implemented by the management and reviews and approves the Company’s financial objectives and major financial activities.

The members of the Board as at the date of this Offering Circular are as follows:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
ZHANG Huiyang (張惠揚) . . . . .	50	Director and General Manager
WU Qin (吳勤) . . . . .	54	Director and Secretary of the Party Committee
JIANG Shuwang (姜樹旺) . . . . .	43	Director and Deputy General Manager
SHEN Jian (沈劍) . . . . .	44	Director and Deputy General Manager
XU Xiangbing (徐向兵) . . . . .	48	Director and Deputy General Manager
ZHUANG Dejun (莊德軍) . . . . .	52	Director and Deputy General Manager
WANG Yuejun (王櫟鈞) . . . . .	48	Director and Accounting Manager
LI Bai (李柏) . . . . .	51	Director, Human Resources Manager and Chief of Party Work Department

**Mr. ZHANG Huiyang (張惠揚)**, aged 50, has served as a director of the Board and general manager of the Company since October 2016. Mr. Zhang obtained a master’s degree from Nanjing University (南京大學) and is also a senior engineer. Prior to joining the Company, Mr. Zhang served as the deputy department chief of China FAW Huaiyin Special Purpose Automotive Manufacturing Plant (中國一汽車淮陰專用汽車製造廠). He also served as a department member of Huai’an Traffic Bureau’s Science and Technology Department (淮安市交通局科技科), the deputy general manager and the general manager of Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. (江蘇瑞潔塑料管材管件有限公司) as well as the deputy general manager of the Company.

**Mr. WU Qin (吳勤)**, aged 54, has served as a director of the Board and Secretary of the Party Committee of the Company since July 2016. Mr. Wu obtained a bachelor’s degree from Central Radio and Television University (中央廣播電視大學). Mr. Wu previously served as a teacher and the deputy secretary of the Chinese Communist Party (“**Party**”) Committee Office of Huaiyin Electronic Industry School (淮陰電子工業學校), an officer, the assistant secretary, the deputy director of secretary department and the director of secretary department of Tourist Bureau to Huaiyin Overseas Chinese Affairs Office (淮陰區外事僑務辦公室旅遊局), the office director, the director of market development division, the deputy director and a member of Party leadership group of Huai’an Tourist Bureau (淮安市旅遊局), the deputy director, a member of Party leadership group and the secretary of Party leadership group of Huai’an Overseas Chinese Affairs Office (淮安市外事僑務辦公室).

**Mr. JIANG Shuwang (姜樹旺)**, aged 43, has served as a director of the Board and the deputy general manager of the Company since October 2016. Mr. Jiang obtained a bachelor’s degree from Chongqing Jiaotong College (重慶交通學院) and is an economist. Mr. Jiang previously served as the deputy director of general manager’s office at Huai’an Automotive Freight General Company (淮安市汽車貨運總公司), the assistant to general manager as well as the manager of the Company’s general department, asset management department and investment management department. He also served as the chairman of Huai’an Grand Canal Cultural Travel Co., Ltd. (淮安市運河文化旅遊有限公司), Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd. (江蘇瑞潔塑料管材管件有限公司) and Huai’an Hangeng Xintiandi Travel Co., Ltd. (淮安漢耕新天地旅行社有限公司).

**Mr. SHEN Jian (沈劍)**, aged 44, has served as a director of the Board and the deputy general manager of the Company since October 2016. Mr. Shen obtained a bachelor’s degree from Party School of the Chinese Communist Party Jiangsu Committee (江蘇省委黨校) and is a policy advisor, an economist and

a logistics manager. He previously served as the deputy general manager of asset management department of the Company, the general manager of Huai'an Traffic Hotel Co., Ltd. (淮安市交通賓館有限公司), the chairman of Huai'an Hongze Lake Travel Resorts Co., Ltd. (淮安洪澤湖旅遊度假村有限公司), the general manager and chairman of Huai'an New Port Harbour Co., Ltd. (淮安市新港港務有限公司), the chairman of Huai'an International Container Logistics Co., Ltd. (淮安國際集裝箱物流有限公司), the chairman of Huai'an Traffic Travel Group Co., Ltd. (淮安交通旅遊集團有限公司), the chairman of Huai'an New Port Railway Co., Ltd. (淮安新港鐵路有限公司) and the chairman of Huai'an Hongze Salt Chemical Development Co., Ltd. (淮安市洪澤鹽化工開發有限責任公司).

**Mr. XU Xiangbing (徐向兵)**, aged 48, has served as a director of the Board and the deputy general manager of the Company since May 2017. Mr. Xu obtained a master's degree from Party School of the Chinese Communist Party Jiangsu Committee (江蘇省委黨校) and is a senior state-owned asset manager and a logistics manager. He previously served as the manager of Lianshui Passenger Transportation Corporation (漣水汽車客運總公司), assistant to general manager, general manager and secretary of General Party Branch (總支書記) of Lianshui Public Transportation Company (漣水縣公交公司), secretary of the Party Committee, the chairman of board of directors, the general manager of Jiangsu Lianshui Pharmaceutical Co., Ltd. (江蘇漣水製藥有限公司), member of the Party Committee of Transportation Bureau, the director and secretary of the Party Branch of Lianshui Commerce Bureau (漣水縣商務局), the director and secretary of the Party Committee of Lianshui Transportation Bureau (漣水縣交通運輸局).

**Mr. ZHUANG Dejun (莊德軍)**, aged 52, has served as a director of the Board and the deputy general manager of the Company since July 2018. Mr. Shen obtained a bachelor's degree from Party School of the Chinese Communist Party Jiangsu Committee (江蘇省委黨校). Mr. Zhuang previously served as a teacher of Huaiyin Nanwuji Central Primary School (淮陰縣南吳集中心小學), a teacher of Huaiyin Huai'ai Middle School (淮陰縣淮海中學), an officer of Party publicity department of Huaiyin District (淮陰區委宣傳部), the deputy director of Government Office of Huaiyin District Government (淮陰區政府辦公室), the deputy general manager of Huai'an Civil Airport Co., Ltd. (淮安民用機場有限責任公司).

**Mr. WANG Yuejun (王櫟鈞)**, aged 48, has served as a director of the Board and the accounting manager since July 2015. Mr. Wang obtained a professional training degree from Party School of the Chinese Communist Party Jiangsu Committee (江蘇省委黨校). Prior to joining the Company, Mr. Wang served at Huaiyin Huaneng Power Plant (淮陰華能發電廠), Huaiyin Import and Export Trade Co., Ltd. (淮安市進出口貿易有限公司), Huai'an Agricultural Bank (淮安市農業銀行)'s business department and the Huai'an centre branch of China Pacific Life Insurance Co., Ltd. (中國太平洋人壽保險股份有限公司).

**Mr. LI Bai (李柏)**, aged 51, has served as director of the Board, the human resource manager and the Chief of the Party Work Department of the Company since August 2017. Mr. Li obtained a professional training degree from Huaiyin Technical Institution (淮陰市工業專科學校). Mr. Li previously served in Qinghe Materials Centre (清河區物資中心) and Huai'an Foreign Trade Company (淮安市對外貿易公司).

## **SUPERVISORS**

The board of supervisors consists of five supervisors. The Board of Supervisors is responsible for monitoring the Company's financial matters and overseeing the actions of the board of directors and the senior management. Each of the supervisors is appointed for a term of three years, which is renewable upon re-election and re-appointment.

The members of the supervisors as at the date of this Offering Circular are as follows:

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
MA Weimin (馬為民) . . . . .	49	Chairman of the Board of Supervisors
WANG Siyuan (王思遠) . . . . .	28	Supervisor
GAO Su (高蘇) . . . . .	27	Supervisor
CHEN Xia (陳霞) . . . . .	37	Supervisor and Deputy Director of Business Administration and Legal Department
MA Long (馬龍) . . . . .	31	Supervisor and Chief of Office of Discipline Supervision and Investigation

**Ms. MA Weimin (馬為民)**, aged 49, has served as the chairman of the board of supervisors of the Company since August 2015 and is also currently the chairman of Second Board of Supervisors of Huai'an Municipal Government (淮安市人民政府第二監事會). Ms. Ma previously served as the deputy chief of Government Procurement Division (政府採購處), the deputy chief and chief of Foreign Financial Division (外經金融處) and the chief of Treasury Division (國庫處) of Huai'an Finance Bureau (淮安市財政局).

**Mr. WANG Siyuan (王思遠)**, aged 28, has served as a supervisor of the Company since April 2016. Mr. Wang is also the full-time supervisor of Service Centre of Huai'an Municipal Enterprises (淮安市市屬企業監事會服務中心).

**Ms. GAO Su (高蘇)**, aged 27, has served as a supervisor of the Company since April 2016. Ms. Gao is also the full-time supervisor of Service Centre of Board of Supervisors of Huai'an Municipal Enterprises (淮安市市屬企業監事會服務中心) and previously served as the court assistant of Xuyi People's Court (盱眙縣人民法院).

**Ms. CHEN Xia (陳霞)**, aged 37, has served as a supervisor and the deputy director of business administration and legal department of the Company since July 2016. Ms. Chen obtained a bachelor's degree from China University of Mining and Technology (中國礦業大學) and is an accountant. Ms. Chen is also the chief of general ledger and finance of Huai'an Daily News Agency Tongda Outdoor Media Co., Ltd. (淮安日報社通達戶外傳媒有限公司). Ms. Chen previously served in Jiangsu Tianye Accounting Firm (江蘇天業會計師事務所) and Shanghai East Fuda Transportation Service Co., Ltd. (上海東方福達運輸服務有限公司).

**Mr. MA Long (馬龍)**, aged 31, has been a supervisor and the chief of discipline supervision and investigation office of the Company since September 2018. Mr. Ma obtained a bachelor's degree from Jiangxi Science and Technology Normal College (江西科技師範學院). Mr. Ma previously served as an officer of Foreign-owned Enterprises Service Centre of Huai'an Qingpu District (淮安市清浦區外資企業服務中心) and a secondee to Government Office of Qingpu District Office (青浦區人民政府辦公室).

## SENIOR MANAGEMENT

The table below sets forth certain information with respect to the Company's senior management members.

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
ZHANG Huiyang (張惠揚) . . . . .	50	General Manager
WU Qin (吳勤) . . . . .	54	Secretary of the Party Committee
JIANG Shuwang (姜樹旺) . . . . .	43	Deputy General Manager
SHEN Jian (沈劍) . . . . .	44	Deputy General Manager
XU Xiangbing (徐向兵) . . . . .	48	Deputy General Manager
ZHUANG Dejun (莊德軍) . . . . .	52	Deputy General Manager

**Mr. ZHANG Huiyang** (張惠揚), aged 50, has served as a director of the Board and general manager of the Company since October 2016. For Mr. Zhang’s biography, see “ – *Directors*” above.

**Mr. WU Qin** (吳勤), aged 54, has served as a director of the Board and the secretary of the Party Committee of the Company since July 2016. For Mr. Wu’s biography, see “ – *Directors*” above.

**Mr. JIANG Shuwang** (姜樹旺), aged 43, has served as a director of the Board and the deputy general manager of the Company since October 2016. For Mr. Jiang’s biography, see “ – *Directors*” above.

**Mr. SHEN Jian** (沈劍), aged 44, has served as a director of the Board and the deputy general manager of the Company since October 2016. For Mr. Shen’s biography, see “ – *Directors*” above.

**Mr. XU Xiangbing** (徐向兵), aged 48, has served as a director of the Board and the deputy general manager of the Company since May 2017. For Mr. Xu’s biography, see “ – *Directors*” above.

**Mr. ZHUANG Dejun** (莊德軍), aged 52, has served as a director of the Board and the deputy general manager of the Company since July 2018. For Mr. Zhuang’s biography, see “ – *Directors*” above.

## PRC REGULATIONS

*This section is a high-level overview of the PRC legal system and a summary of the principal PRC laws and regulations relevant to the issue of the Bonds by the Issuer. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations.*

### THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and laws resulting from international treaties entered into by the PRC government. In general, court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders. The People's Congresses or their standing committees of the comparatively larger cities may, in light of the specific local conditions and actual needs, formulate local regulations, **provided that** they do not contradict the PRC Constitution, the national laws, the administrative regulations and the local regulations of their respective provinces or autonomous regions, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law.

After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

The PRC Judicial System under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the high courts.

The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level courts supervise the judicial work of the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended on 28 October 2007, on 31 August 2012 and on 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, **provided that** the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the contract or a venue which has actual connection with the dispute. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the competent court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by a PRC court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the PRC court's examination in accordance with the principal of reciprocity, unless the PRC court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, sovereignty or national security, or for reasons of social and public interests.

## Regulation on Fiscal Debts of Local Governments

In accordance with Notice on the Issuance of the Regulations on the Cost Management of Capital Construction Projects (財政部關於印發《基本建設項目建設成本管理規定》的通知) issued by MOF on 6 July 2016 and took effect on 1 September 2016, the construction agency established (or authorised to be established) by the government can be deemed as a department of the government and can directly prepare the annual investment plan and annual budget for city infrastructure construction. In accordance with Guidance on Further Strengthening Adjustment of Credit Structure to Promote Fast and Smooth Development of National Economy (中國人民銀行、中國銀行業監督管理委員會關於進一步加強信貸結構調整促進國民經濟平穩較快發展的指導意見) issued jointly by the PBOC and CBRC in March 2009, local governments are encouraged to establish financing platforms to issue financing instruments such as enterprise bonds and medium term notes. In order to strengthen the management of financing platforms and effectively prevent fiscal financial risks, Notice of the State Council on Strengthening Management of Financing Platform of Local Government (國務院關於加強地方政府融資平臺公司管理有關問題的通知)(“**Circular 19**”) and Notice of NDRC on Further Regulating Issuance of Bonds by Financing Platform of Local Government (國家發展改革委辦公廳關於進一步規範地方政府投融資平臺公司發行債券行為有關問題的通知)(“**Circular 2881**”) were separately promulgated in June 2010 and November 2010. In accordance with Circular 19, all levels of local governments shall clear up the debts of their respective financing platform. In accordance with Circular 2881, indebtedness of local governments will impact a financing platform’s issuance of enterprise bonds.

On 21 September 2014, Opinions of the State Council on Strengthening the Administration of Local Government Debts (國務院關於加強地方政府性債務管理的意見)(“**Circular 43**”) was promulgated by the State Council. Circular 43 aims at regulating the financing system of local government and three channels are presented. In accordance with Circular 43, financing platforms shall no longer serve the fiscal financing functions nor incur new government debts. Public interest projects may be funded by the government through issuing government bonds, since the new Budget Law of the PRC (中華人民共和國預算法)(the “**New Budget Law**”), which took effect on 1 January 1995 and amended on 31 August 2014 and 29 December 2018, empowers local governments to issue government bonds, and public interest projects with income generated, such as city infrastructure construction, may be operated independently by social investors or jointly by the government and social investors through the establishment of special purpose companies. Social investors or such special purpose companies shall invest in accordance with market-oriented principles and may be funded by, among other market-oriented approaches, bank loans, enterprise bonds, project revenue bonds and asset-backed securitisation. Social investors or the special purpose companies shall bear the obligation to pay off such debts and the government shall not be liable for any of the social investors’ or special purpose companies’ debts. Circular 43 also sets forth the general principles of dealing with existing debts of financing platforms. Based on the auditing results of such debts run by the local governments, the existing debts that should be repaid by the local governments shall be identified, reported to State Council for approval, and then included in the budget plan of local governments.

On 11 May 2015, Opinion on the Proper Solution of the Follow-up Financing Issues for Projects under Construction of Financing Platform of Local Governments issued jointly by MOF, the PBOC and the CBRC (財政部人民銀行銀監會關於妥善解決地方政府融資平臺公司在建項目後續融資問題意見)(“**Circular 40**”) was promulgated by the General Office of the State Council of the PRC. In accordance with Circular 40, local governments at all levels and banking financial institutions shall properly deal with follow-up financing issues for projects under construction of financing platform companies. Projects under construction refer to projects that have started construction upon the completion of examination, approval or filing procedures in accordance with relevant regulations by competent investment authorities before the date when the Circular 43 was promulgated.

Pursuant to the Circular on Relevant Issues Concerning Strengthening the Management of Financing Platform Companies of Local Governments issued (國務院關於加強地方政府融資平臺公司管理有關問題的通知) by the State Council on 10 June 2010, where it is necessary for local governments to

establish financing platform companies, they shall handle the matter strictly in accordance with relevant laws and regulations, and inject capital fund in full and may not inject public welfare assets such as schools, hospitals and parks into financing platform companies as capital.

On 26 April 2017, MOF, the DARC, the MOJ, the PBOC, the CBRC(has been revoked) and the CSRC jointly issued the Notice on Further Regulating Local Government's Debt Financing Behavior issued jointly (財政部、發展改革委、司法部、人民銀行、銀監會、證監會關於進一步規範地方政府舉債融資行為的通知)("Circular 2"). In accordance with Circular 2, the local government shall not inject public welfare assets or reserve land into the financing platform company, and shall not promise that using the expected transfer income of reserve land as the source of debt financing funds of the financing platform company, and shall not use government resources to interfere with the normal operation of financial institutions.

Pursuant to the Notice of on Improving the Market Restraint Mechanism and Strictly Preventing Foreign Debt Risks and Local Debt Risks (關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) issued by the NDRC and the MOF on 11 May 2018, enterprises intend to issue medium and long-term foreign debt should establish a sound and standardized corporate governance structure, management decision-making mechanism and financial management system. The assets owned by the declared enterprise shall be of good quality and clear ownership and public schools, public hospitals, public cultural facilities, parks, public squares, office buildings of government offices and public institutions, municipal roads, non-toll bridges, non-operating water conservancy facilities, non-toll pipeline network facilities and other public welfare assets and the right to use the reserve land shall be strictly prohibited from being included in the assets of the enterprises.

## PRC LAWS AND REGULATIONS RELATING TO INFRASTRUCTURE PROJECTS

According to the Bidding and Tendering Law of the People's Republic of China (中華人民共和國招標投標法) promulgated on 30 August 1999 and amended on 27 December 2017, projects such as large-scale infrastructure and public utilities involving social and public interests and public security to be conducted in the territory of the People's Republic of China, including surveying and prospecting, design, engineering and supervision of such projects as well as the procurement of major equipment and materials related to the construction thereof, must be subject to bidding. On 27 March 2018, the State Council promulgated Regulations on Engineering Projects that Must be Bidded (必須招標的工程項目規定) to clarify the scope of infrastructure projects involving social public interests and public safety for tendering, which covers communication and transportation projects of railways, roads, pipelines, water transport, aviation, other communication and transportation industries, etc.

Standing Committee of the National People's Congress promulgated the Highway Law of the People's Republic of China (中華人民共和國公路法)(the "**Highway Law**") on 3 July 1997 and revised the Highway Law on 31 October 1999, 28 August 2004, 27 August 2009, 7 November 2016 and on 4 November 2017 to strengthen the construction and management and stimulate the development of highways so as to make their development to adapt to the need of socialist modernization and people's daily living. The Highway Law requires that the development of highways in the country shall follow the principles of overall planning, rational distribution, good quality and clearance of obstructions, protecting the environment and giving equal stress to construction, renovation and maintenance. The people's governments at all levels shall adopt effective measures to support and stimulate the construction of highways. Construction of highways shall be incorporated into the national economic and social development plans. Article 4 in the Highway Law points out that the State encourages and guides domestic and foreign economic organizations to invest in the construction and operation of highways according to law. According to the Highway Law, highway construction should be undertaken in accordance with procedures for infrastructural construction as provided for by the State and related regulations.

On 30 January 2000, State Council promulgated Administrative Regulations on the Quality Management of Construction Engineering (建設工程質量管理條例) which was amended by the Decision of the State Council on Amending Certain Administrative Regulations (國務院關於修改部分行政法規的決定(2017年10月)) promulgated on 7 October 2017 and the Decision of the State Council on Amending Certain Administrative Regulations (國務院關於修改部分行政法規的決定(2019年4月)) promulgated on 23 April 2019. According to this regulation, the construction administrative department of the State Council shall supervise and administer the quality of construction engineering throughout the country in a centralised manner. The departments of railways, communications and water resources as well as other relevant departments of the State Council shall, according to their respective duties and functions as specified by the State Council, be responsible for supervising and administering the quality of the relevant special construction engineering of the whole country. The construction administrative departments of local people's governments at the county level or above shall, supervise and administer the quality of the construction engineering within their respective administrative area. The departments of communications and water resources as well as other relevant departments of local people's governments at the county level or above shall, within their respective duties and functions, be responsible for supervising and administering the quality of the special construction engineering within their respective administrative area.

According to Supervisory and Administrative Measures for Highway Construction (公路建設監督管理辦法), which promulgated on 8 June 2006, highway construction shall be carried out in accordance with construction procedures as required by the State as well as other relevant provisions. An examination and approval system shall be adopted for government-invested highway construction projects and an approval system for enterprise-invested highway construction projects. A competent transport department of a people's government above the county level shall examine and approve or approve highway construction projects in accordance with its duties and shall not exceed its power to examine and approve or approve projects, or simplify construction procedures in the absence of due authorization. Access management shall, in accordance with the law, be practiced in the highway construction market. The project construction management department of a legal person in charge of a highway construction project or its entrusted enterprise or institution for managing the project construction and the technical and managerial competence of its key responsible persons shall meet the demands in management of the project proposed to be constructed and shall comply with the relevant requirements by the Ministry of Communications. In the absence of appropriate qualification licensed by relevant departments, no enterprise engaging in the survey, design, construction, supervision, testing or other work of highway projects shall enter the highway construction market. The highway construction market shall be open. All enterprise or institution or person shall refrain from local protectionism in the highway construction market and restriction of the access to the highway construction market by any enterprise or institution or person meeting the market access conditions.

The Administrative Measures for the Highway Construction Market (公路建設市場管理辦法)(the “**Highway Measure**”) promulgated on 21 December 2004 and last amended on 26 June 2015 by the Ministry of Communication and Transportation regulates the market order of highway construction, ensuring the quality of highway projects, and promoting the healthy development of the highway construction market. According to the Highway Measure, the principle of fairness, justice, openness, and good faith shall be upheld in the highway construction market. The administration of highway construction market shall be based on uniform administration with each level of the administrative authorities assuming their respective responsibilities. A legal person responsibility system shall be practiced in highway construction projects. A project legal person may manage a highway construction project by itself or entrust a project construction management entity with legal person status to effect the project management. The technical and management ability of any project legal person or the organization, major person-in-charge of the project construction management entity under its entrustment shall meet the requirements of management of the project to be constructed, and comply with the requirements of relevant provisions of the competent department of communications of the State Council. No highway project survey, design, construction, supervision, experiment and testing entity or

any other practicing entity may enter into the highway construction market until it has obtained the corresponding qualifications as are issued by relevant administrative departments in accordance with the provisions of laws and regulations.

Measures for the Completion Inspection and Acceptance of Highway Construction (公路工程竣(交)工驗收辦法) promulgated on 31 March 2004 and Implementing Rules for Measures for the Completion Inspection and Acceptance of Highway Construction (公路工程竣(交)工驗收辦法實施細則) promulgated on 30 April 2010 further standardize and improve the completion inspection and acceptance of Highway Construction. Aforementioned two documents specify the criteria, procedure, standards for evaluation of the completion inspection and acceptance.

## **PRC LAWS AND REGULATIONS RELATING TO REAL PROPERTY RIGHTS**

Pursuant to Real Rights Law of the PRC (中華人民共和國物權法), which was promulgated on 16 March 2007 and with effect from 1 October 2007, the real rights of the State, collectives, individuals or any other rights holder shall be protected by law, and no entity or individual may infringe upon these rights. The categories of real rights and their contents shall be prescribed by law. The creation, alteration, transfer or termination of a real right of an immovable shall be subject to registration in accordance with the law. The creation or transfer of a real right of a movable shall be delivered in accordance with the law.

In accordance with Law of the People's Republic of China on the Administration of Urban Real Estate (中華人民共和國城市房地產管理法), which was promulgated on 5 July 1994 and last amended on 27 August 2009, when real estate is assigned or changed, an application for registration of change in real estate shall be submitted to the real estate administration department of the local people's government above the county level, and an application for registration of change in land use rights shall be submitted to the land administration department of the local people's government at the same level on the strength of the building ownership certificates after change. When real estate is mortgaged, mortgage registration shall be handled with the departments authorised by the local people's government above the county level.

The Land Administration Law of the People's Republic of China (中華人民共和國土地管理法) which was promulgated on 25 June 1986 and was last amended on 28 August 2004 forbidden any units and individuals to leave cultivated land unused or let it lie waste. Pursuant to Measures for the Disposal of Idle Land (閑置土地處置辦法) which was promulgated on 28 April 1999 and amended on 1 June 2012 and with effect from 1 July 2012, where the delay in the commencement of the construction and development of a plot of State-owned land for construction use is caused by acts of any government or government department, department of land and resources at the municipal or county level shall dispose of the land in several ways, including but not limited to providing another plot of land in exchange for the land, through consultation with the holder of the land use right.

## **ENVIRONMENTAL PROTECTION LAWS**

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), promulgated on 26 December 1989 and amended on 24 April 2014 and become effective on 1 January 2015, requires any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system with effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials.

The Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例) promulgated on 29 November 1998 and amended on 16 July 2017, implements an environmental impact assessment system for construction projects. Before commencing any construction which may have an impact on the environment, an environmental impact assessment report, an environmental impact assessment form or an environmental impact assessment registration form needs to

be submitted to the relevant environmental protection authorities. If a significant change to an approved construction project takes place, an environmental impact assessment report, an environmental impact assessment form or an environmental impact assessment registration form shall be re-submitted for approval. The environmental protection facilities must be designed, constructed and put into use or operation simultaneously with the main part of a construction project. After completion of such construction project, an acceptance inspection needs to be completed by the environmental protection authorities. The Regulations on Administration concerning the Environmental Protection Acceptance Inspection on Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated on 27 December 2001 and was amended on 22 December 2010, set forth the specific procedures and requirements for environmental protection acceptance inspection. If a construction project does not conform to the specified procedures or requirements, the operator is not permitted to put it into operation or use.

Pursuant to the Law on Prevention and Control of Noise Pollution of the PRC (中華人民共和國環境雜訊污染防治法), the Law on Prevention of Water Pollution of the PRC (中華人民共和國水污染防治法), the Law on Prevention of Air Pollution of the PRC (中華人民共和國大氣污染防治法), the Implementing Regulations for the Law of the People's Republic of China on Environmental Protection Tax (中華人民共和國環境保護稅法實施條例), which was promulgated on 25 December 2017; and took effect on 1 January 2018 and other laws on pollutant discharge, an entity discharging pollutant must regularly submit a declaration statement detailing the type, volume and concentration of the pollutant to be discharged to the relevant environmental protection government authorities. An entity shall also submit such a declaration statement for a new construction, expansion or reconstruction of a construction project before pilot production.

If a significant change occurs to an approved construction project, an environmental impact assessment report, an environmental impact assessment form or an environmental impact assessment registration form shall be re-submitted for approval. The environmental protection facilities must be designed, constructed and put into use or operation simultaneously with the main part of a construction project. The Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) applies a system of report and registration to industrial solid waste. Entities and individuals collecting, storing, transporting, utilising or disposing of solid waste must take precautions against the spread, loss and leakage of such solid waste or adopt such other measures for preventing such solid waste from polluting the environment.

The administrative penalties for breach of the environmental protection laws of the PRC include warnings, fines and suspension of production or operation, depending on the degree of damage. For instance, any entity which fails to submit an environmental impact assessment report, an environmental impact assessment form or an environmental impact assessment registration form as required by law may be ordered to suspend its production or operation and be subject to a fine. In addition, the entity or the person responsible for the pollutants may be subject to criminal liability for serious breaches of the environmental protection laws resulting in significant damage to private or public property or personal death or injury.

### **Work Safety Management Laws**

Major laws and regulations on work safety during the project contracting process include Work Safety Law of the People's Republic of China (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress of the PRC on 29 June 2002 which became effective on 1 November 2002, and amended on 31 August 2014 which amendment became effective on 1 December 2014, Regulation on Work Safety Management of Construction Projects (建設工程安全生產管理條例) promulgated by State Council on 24 November 2003 which became effective on 1 February 2004, Regulation on Work Safety Licenses (安全生產許可證條例) by State Council on 13 January 2004 and became effective on the same date, and amended on 29 July 2014 which amendment became effective on the same date. Interim Regulation of Penalty and Fine on Regulation on Work Safety Accident Report and Investigation (《生產安全事故報告和調查處理條例》罰款處罰暫行規定) promulgated by

State Council on 12 July 2007 which became effective on the same date, and amended on 2 April 2015 which amendment became effective on 1 May 2015, and Administrative Provisions on Work Safety Licenses of Construction Enterprises (建築施工企業安全生產許可證管理規定) issued by the Ministry of Construction (“MOC”) on 5 July 2004 and became effective on the same date and amended on 22 January 2015.

In accordance with the Work Safety Law of the People’s Republic of China, Regulation on Work Safety Licenses and other related regulations, the state implements the work safety license system to construction enterprises. Any enterprise failing to obtain the work safety license shall not carry out production activity. In accordance with the Regulation on Work Safety Management of Construction Projects, all the building, surveying, designing, construction and supervision units shall be responsible for the work safety of construction projects. For general contracting projects, the general contractor shall assume full responsibility for the work safety of the construction site, and the subcontractor shall be jointly liable for the work safety of the subcontracted portions of work.

## **Labour Laws**

### ***Employment Contracts***

The Labour Contract Law (勞動合同法), promulgated by the Standing Committee of the National People’s Congress on 29 June 2007, which became effective on 1 January 2008 and was amended on 28 December 2012 and became effective on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employee contract. The Labour Contract Law stipulates that employee contracts shall be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Pursuant to the Labour Contract Law, employment contracts lawfully concluded prior to the implementation of the Labour Contract Law and continuing as at the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labour Contract Law, but no written employment contract was concluded, a contract shall be concluded within one month after its implementation.

### ***Employee Funds***

Under applicable PRC laws, regulations and rules, including the Social Insurance Law (社會保險法), promulgated by the Standing Committee of the National People’s Congress on 28 October 2010, which became effective on 1 July 2011 and was amended on 29 December 2018 and became effective on the same day, the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), promulgated by the State Council on 22 January 1999, which became effective on 22 January 1999 and was amended on 24 March 2019 and Administrative Regulations on the Housing Provident Fund (住房公積金管理條例), promulgated by the State Council on 3 April 1999, which became effective on 3 April 1999 and as amended on 24 March 2002 and amended on 24 March 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the outstanding amount within a stipulated time period.

## PRC CURRENCY CONTROLS

*The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Bonds. Prospective holders of Bonds who are in any doubt as to PRC currency controls are advised to consult their own professional advisors.*

Renminbi is not a freely convertible currency. The remittance of Renminbi into and out of the PRC is subject to control imposed under PRC law.

### CURRENT ACCOUNT ITEMS

Under the applicable PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and out of the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. In June 2010, July 2011 and February 2012 respectively, the PRC government promulgated the Circular on Relevant Issues Concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Circular on the Relevant Issues Pertaining to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together, the “**Renminbi Circulars**”). Pursuant to these Renminbi Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining approval as previously required, **provided that** the relevant provincial government has submitted to PBOC and five other PRC authorities (the “**Six Authorities**”) a list of enterprises subject to key supervision and the Six Authorities have verified and signed off such list (the “**Supervision List**”). Accordingly, offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted the Supervision List (for the avoidance of doubt, that PRC enterprise included in the Supervision List is not prohibited to engage in Renminbi settlement, **provided that** they are subject to heavier supervision) or (b) enterprises that have been approved as a pilot enterprise for using Renminbi for exports if the relevant province has not submitted the Supervision List.

On 5 July 2013, PBOC issued the Notice of the People’s Bank of China on the Simplifying the Process of Cross-border Renminbi Services and the Improving Relevant Policies (中國人民銀行關於簡化跨境人民幣業務流程和完善有關政策的通知) (the “**PBOC 2013 Notice**”), pursuant to which on the basis of three principles of “know your customer”, “know your business”, and “due diligence”, domestic banks can directly handle the cross-border settlement under current account items by virtual of business vouchers provided by enterprises (except for enterprises on the key regulatory list of regulating Renminbi cross-border settlement in export goods trade) or Receipt/Payment Instructions on Renminbi Cross-border Settlement.

As new regulations, the Renminbi Circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Renminbi Circulars and impose conditions for settlement of current account items.

## **CAPITAL ACCOUNT ITEMS**

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

On 7 April 2011, the SAFE issued the Notice on Relevant Issues regarding Streamlining the Business Operation of Cross-border RMB Capital Account Items (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知), which clarifies that the borrowing by an onshore entity (including a financial institution) of Renminbi loans from an offshore creditor shall in principle follow the current regulations on borrowing foreign debts and the provision by an onshore entity (including a financial institution) of external guarantees in Renminbi shall in principle follow the current regulations on the provision of external guarantees in foreign currencies.

On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures (外商直接投資人民幣結算業務管理辦法) which set out operating procedures for PRC banks to handle RMB settlement relating to RMB FDI and borrowing by foreign invested enterprises of offshore RMB loans. On 14 June 2012, PBOC further issued the implementing rules for the PBOC RMB FDI Measures (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知). Prior to the PBOC RMB FDI Measures, cross-border RMB settlement for RMB FDI has required approvals on a case-by-case basis from the PBOC. The new rules replace the PBOC approval requirement with less onerous post-event registration and filing requirements. Foreign invested enterprises, whether established or acquired by foreign investors, shall complete the corporate information registration after the completion of relevant RMB FDI transactions, and shall make post-event registration or filing with the PBOC of increases or decreases in registered capital, equity transfers or swaps, merger or acquisition or other changes to registered information.

Pursuant to the Administrative Measures for Foreign Debt Registration and its operating guidelines (外債登記管理辦法及操作指引), which came into effect on 13 May 2013, issuers of foreign debts are required to register with the SAFE. Issuers other than banks and financial departments of the government shall go through registration or record-filing procedures with the local branch of the SAFE within 15 business days of entering into a foreign debt agreement. If the receipt and payment of funds related to the foreign debt of such issuer is not handled through a domestic bank, the issuer shall, in the event of any change in the amount of money withdrawn, principal and interest payable or outstanding debt, go through relevant record-filing procedures with the local branch of the SAFE.

On 3 December 2013, MOFCOM promulgated the Announcement on Issues Concerning Cross-border RMB Direct Investment (關於跨境人民幣直接投資有關問題的公告). “Cross-border RMB direct investment” in the Announcement shall refer to the direct investment activities carried out by foreign investors (including investors from Hong Kong, Macao and Taiwan Region, also below) in China with RMB legally obtained overseas in accordance with the law including establishment of new enterprises, capital increase, participation or merger of domestic enterprises.

Foreign investors shall go through relevant formalities to the cross-border RMB direct investment in accordance with the current laws, administrative regulations, rules and relevant policies of the State on foreign investment. The cross-border RMB direct investment and the reinvestment of the invested foreign-funded enterprises shall conform to the requirements of laws, regulations and relevant provisions on foreign investment and abide by relevant provisions of the industrial policy, safety review of foreign capital merger and acquisition and anti-monopoly review on foreign investment of the State. The foreign-funded enterprises shall not use any fund of cross-border RMB direct investment to make any direct or indirect investment in securities, financial derivatives (excluding the strategic investment in listed companies) or entrusted loans within China.

On 12 May 2014, SAFE promulgated Provisions on Foreign Exchange Administration of Cross-border Guarantee (跨境擔保外匯管理規定) (“**Circular 29**”) and its implementing rules, which came into effect on 1 June 2014. According to Circular 29, overseas lending secured by domestic guarantee (usually known as “Neibaowaidai”) refers to the form of cross-border guarantee whereby the place of registration of the guarantor is within the PRC, while the places of registration of both the debtor and the creditor are outside the PRC; domestic lending secured by overseas guarantee (usually known as “Waibaoneidai”) refers to the form of cross-border guarantee whereby the place of registration of the guarantor is outside the PRC, while the places of registration of both the debtor and the creditor are within the PRC; and “other forms of cross-border guarantee” refers to the forms of cross-border guarantee other than Neibaowaidai and Waibaoneidai. Neibaowaidai and Waibaoneidai shall be registered with SAFE under Circular 29, which registration is not a prerequisite of the effectiveness of cross-border guarantee; other forms of cross-border guarantee are not subject to SAFE registration.

On 14 September 2015, the NDRC promulgated the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (the NDRC Notice)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知), which came into effect on the same day. According to the NDRC Notice, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise intends to issue bonds outside the boundary of the PRC with a maturity of more than one year, such enterprise must, prior to the issue of such bonds, file certain prescribed documents with the NDRC and procure a registration filing certificate from the NDRC in respect of such issuance (the Pre-Issuance Registration Filing Certificate).

The NDRC Circular relates to the matters as listed below:

- remove the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Realise the supervision and administration of the size of foreign debts borrowed on a macro level with the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;
- before the issuance of foreign debts, enterprises shall first apply to the NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within 10 working days of completion of each issuance;
- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised and back flow of funds, etc. The applicant shall be responsible for the authenticity, legality and completeness of the application materials and information;
- the NDRC shall decide whether to accept the application for record-filing and registration within five working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises within seven working days of accepting the application and within the limit of the total size of foreign debts;
- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, the NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and
- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. The NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record-filing and registration into the national credit information platform.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at 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 Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisors concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.*

### PRC

*The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this “Taxation – PRC” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.*

Pursuant to the EIT Law, the IIT Law and the implementation regulations in relation to both the EIT Law and the IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals, respectively, subject to adjustment by applicable treaty. As the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

Such income tax shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment or payment due. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, under the IIT Law, any individual who has no domicile and does not live within the territory of the PRC or who has no domicile but has lived within the territory of China for less than 183 days cumulatively within a tax year shall pay individual income tax for any income obtained within the PRC. There is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted

under PRC tax laws to be deducted from the income. According to the Arrangement, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued Circular 36 which introduced a new VAT from 1 May 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Accordingly, the interest and other interest like earnings received by a non-PRC resident Bondholder from the Issuer will be subject to PRC VAT at the rate of 6 per cent. The Issuer will be obligated to withhold VAT of 6 per cent and certain surcharges on VAT for payments of interest and certain other amounts on the Bonds paid by the Issuer to Bondholders that are non-resident enterprises or individuals. And as the withholding agent, the Issuer shall calculate the withholding tax according to the following formula: withholding tax = price paid by the purchaser  $\div$  (1 + tax rate)  $\times$  tax rate. Pursuant to Interim Regulation of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例(2011修訂)), Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定(2011修訂)), Notice of the Ministry of Finance on the Relevant Matters regarding Unifying the Policies on Local Education Surcharges (財政部關於統一地方教育附加政策有關問題的通知), a (city maintenance and construction tax (7 per cent.), an educational surcharge (3 per cent.) and a local educational surcharge (2 per cent.) will be applicable when entities and individuals are obliged to pay VAT (for an aggregate of 12 per cent. on any VAT payable)). However, there is uncertainty as to whether gains derived from a sale or exchange of Bonds consummated outside of the PRC between non-PRC resident Bondholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

However, despite the withholding of the PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in “*Terms and Conditions*”.

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of Bondholders is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

## **HONG KONG**

### **Withholding tax**

No withholding tax is payable in Hong Kong in respect of payments of principal, premium (if any) or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

## **Profits tax**

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong; or
- (b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business.
- (c) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**IRO**”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (d) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

## **Stamp duty**

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

## **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of the IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or

an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining “foreign passthru payment”. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

## SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with the Managers dated 12 September 2019 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Managers, and the Managers have agreed to, severally but not jointly, subscribe and pay for, or to procure subscribers to subscribe and pay for the Bonds at an issue price of 99.46 per cent. of their principal amount indicated in the following table:

	<b>Principal amount of the Bonds</b>
	<i>U.S.\$</i>
Guotai Junan Securities (Hong Kong) Limited . . . . .	100,000,000
CMBC Securities Company Limited . . . . .	40,000,000
Haitong International Securities Company Limited . . . . .	40,000,000
Industrial Bank Co., Ltd. Hong Kong Branch . . . . .	40,000,000
Orient Securities (Hong Kong) Limited . . . . .	40,000,000
SPDB International Capital Limited . . . . .	40,000,000
<b>Total</b> . . . . .	<b><u>300,000,000</u></b>

The Subscription Agreement provides that the Issuer will pay certain fees and underwriting commissions to the Managers and indemnify the Managers and their respective affiliates, and their respective directors, officers and employees will be indemnified against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions with the Issuer for which they have received, or will receive, fees and expenses. In connection with the offering of the Bonds, the Managers and/or their respective affiliates, or affiliates of the Issuer, may place orders, receive allocations and purchase Bonds for their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering. Accordingly, references herein to the Bonds being ‘offered’ should be read as including any offering of the Bonds to the Managers and/or their respective affiliates, or affiliates of the Issuer for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained (see “*Risk Factors – Risks Relating to the Bonds – An active trading market for the Bonds may not develop*”). The Issuer and the Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

In the ordinary course of its various business activities, the Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities of the Issuer, including the Bonds and could adversely affect the trading prices of the Bonds. The Managers and their respective affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

In connection with the issue of the Bonds, any of the Managers appointed and acting in its capacity as Stabilisation Managers or any person acting on behalf of the Stabilisation Managers may, to the extent permitted by applicable laws and directives, over-allot the Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Managers or any person acting on behalf of the Stabilisation Managers shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilisation Managers or any person acting on behalf of the Stabilisation Managers will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Bonds is made and, if begun, may be ended at any time, but must end after a limited period. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Stabilisation Managers.

### **General**

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer or the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer or the Managers. If a jurisdiction requires that an offering of Bonds be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

### **United States**

The Bonds have not been and will not be registered under the Securities Act and may, subject to certain exceptions, 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 Bonds are being offered and sold outside of the United States in reliance on Regulation S.

### **United Kingdom**

Each of the Managers has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

## **Hong Kong**

Each of the Managers has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) 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 under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of the SFO; and
- (ii) 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, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, 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 Bonds 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.

## **PRC**

Each of the Managers has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

## **Singapore**

Each of the Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase, and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, 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 Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments), (Securities and Securities-based Derivatives Contracts) Regulations 2018.

### **Japan**

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “**Financial Instruments and Exchange Act**”) and, accordingly, each of the Managers has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS**

*The Issuer's Audited Consolidated Financial Statements included in this Offering Circular were prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications. between PRC GAAP and IFRS. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Issuer. The Issuer is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure between PRC GAAP and IFRS and no attempt has been made to quantify such differences. Had any such quantification or reconciliation been undertaken by the Issuer, other potentially significant accounting and disclosure differences may have required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future.*

### **Government Grants**

Under PRC GAAP, an assets-related government grants is only required to be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. However, under IFRS, such assets-related government grants are allowed to be presented in the statement of financial position either by setting up the grants as deferred income or by deducting the grants in arriving at the carrying amount of the asset.

Under PRC GAAP, the relocation compensation for public interests is required to be recognised as special payables. The income from compensation attributable to losses of fixed assets and intangible assets, related expenses, losses from production suspension incurred during the relocation and reconstruction period and purchases of assets after the relocation shall be transferred from special payables to deferred income and accounted for in accordance with the government grants standard. The surplus reached after deducting the amount transferred to deferred income shall be recognised in capital reserve. Under IFRS, if an entity relocates for reasons of public interests, the compensation received shall be recognised in profit and loss.

### **Reversal of Impairment Loss**

Under PRC GAAP, once an impairment loss is recognised for a long-term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period. Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

### **Related Party Disclosures**

Under PRC GAAP, government-related entities are not treated as related parties.

Under IFRS, government-related entities are still treated as related parties.

### **Fixed Assets and Intangible Assets**

Under PRC GAAP, only the cost model is allowed.

Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy.

## GENERAL INFORMATION

1. **Clearing System:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code 201521483 and the ISIN for the Bonds is XS2015214831.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue, entering into and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer dated 28 May 2018. PRC counsels to the Issuer and PRC counsels to the Managers have advised that no other approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Issuer to issue the Bonds except for (i) the submission of the Bonds for registration with SAFE within the prescribed timeframe and (ii) the filing of the requisite information and documents with the NDRC within the prescribed timeframe. For consequences of non-registration, see “*Risk Factors – Risks Relating to the Bonds – Any failure to complete the relevant filings under the NDRC Circular and the relevant registration under SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer and/or the investors of the Bonds*”.
3. **No Material Adverse Change:** There has been no material adverse change, or any development or event involving a prospective change, in the condition (financial or otherwise), prospects, results of operations or business, properties or general affairs or profitability of the Issuer or the Group since 31 December 2018.
4. **Litigation:** None of the Issuer or any member of the Group is involved in any litigation or arbitration proceedings which could have a material and adverse effect on their businesses, results of operations and financial condition nor is the Issuer aware that any such proceedings are pending or threatened.
5. **Available Documents:** Copies of the Issuer’s Audited Consolidated Financial Statements, the Trust Deed and the Agency Agreement relating to the Bonds will be available for inspection from the Issue Date upon prior written request and proof of holding at the place of business of the Trustee at all reasonable times during normal business hours (being 9.00 a.m. to 3.00 p.m.), so long as any Bond is outstanding.
6. **Financial Statements:** The Issuer’s Audited Consolidated Financial Statements, which are included elsewhere in this Offering Circular, have been audited by Zhongxinghua as stated in its reports dated 15 April 2019.
7. **Listing of Bonds:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 20 September 2019.
8. **Legal Entity Identifier:** The Issuer’s Legal Entity Identifier (LEI) Code is 3003002ZFAJ1WEB2BL96.

## INDEX TO FINANCIAL STATEMENTS

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HUAI'AN TRAFFIC HOLDING CO.,LTD



## Auditors' Report

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报告文号：中兴华审字[2019]第020347号

ZHONGXINGHUA CERTIFIED PUBLIC ACCOUNTANTS LLP



ZHONGXINGHUA CERTIFIED PUBLIC ACCOUNTANTS LLP

F15,Sichuan Building East,No.1 Fu Wai Da Jie,Xicheng District, Beijing,China

## Audit Report

Zhongxinghua Audit No. [2019] 020347

To the shareholders of HUIAI'AN TRAFFIC HOLDING CO.,LTD:

### I. Audit Opinions

We have audited financial statements of Huai'an Traffic Holding Co., Ltd (hereinafter referred to as "Huai'an Traffic Holding Company"), including consolidated balance sheets dated 31 December, 2018, 31 December, 2017 and 31 December, 2016 and balance sheet of parent company, consolidated financial statement for 2016 to 2018 and financial statement of parent company, consolidated cash flow statement and cash flow statement of parent company, consolidated statement of changes in equity and statement of changes in equity of parent company and relevant note to financial statements.

We consider that attached financial statements are prepared according to accounting standards for enterprises in all major aspects and fairly reflect consolidated financial conditions dated 31 December, 2018, 31 December, 2017 and 31 December, 2016 and financial statements of parent company of Huai'an Traffic Holding Company and financial conditions of parent company, and consolidated operating results and cash flows from 2016 to 2018 and operating results and cash flow of parent company.

### II. Foundation of audit opinions

We conducted audit work as per provisions in the Chinese Certified Public Accountant Auditing Standards. The part of "CPA responsibilities for financial statement audit" in the audit report further elaborates on our responsibilities under the Standards. We are independent of the Huai'an Traffic Holding Company in accordance with China Code of Ethics for Certified Public Accountants, and we have fulfilled our other ethical responsibilities. We believe our audit evidences are sufficient and appropriate, as the basis for our audit opinions.

### III. Management and governance liabilities for financial statement

The Management is responsible for preparing the financial statements in accordance

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with GAAP and presenting them fairly; designing, implementing and maintaining necessary internal control so that there isn't any material misstatement in the financial statements due to fraud or error.

During preparation of financial statements, management is responsible for evaluating going-concern ability of Huai'an Traffic Holding Company, disclosing matters relating to going-concern (if applicable), and using the assumption of going-concern, unless management plans to liquidate Huai'an Traffic Holding Company, terminate operation or has no other realistic selection.

Those charged with governance are responsible for overseeing the Huai'an Traffic Holding Company's financial reporting process.

#### **IV. Responsibilities of CPA for financial statement audit.**

Our objective is to obtain reasonable assurance as to whether the entire financial statement is free from material misstatement due to fraud or error, and issue an audit report containing audit opinions. Reasonable assurance is a high level of assurance, but it does not guarantee the audit performed in accordance with auditing standards can always discover a certain existing material misstatement. Misstatement may be caused by fraud or error; if a reasonably expected misstatement alone or aggregated may affect financial statement user's economic decision made based on financial statement, it is generally considered to be material misstatement.

When conducting audit in accordance with auditing standards, we used professional judgment and maintained professional suspicion. Meanwhile, we also performed the following tasks:

(1) Identify and assess material misstatement risk of financial statement caused by fraud or error, design and implement audit procedures to address these risks, and obtain sufficient and appropriate audit evidences as the basis for issuing audit opinions. Since fraud may involve collusion, falsification, intentional omission, misrepresentation or overriding internal control, the risk of failing to detect material misstatement caused by fraud is higher than the risk of failing to detect material misstatement caused by error.

(2) Understand audit-related internal control, to design appropriate audit procedures, but the purpose is not to express opinions on the effectiveness of internal control.



(3) Evaluate the appropriateness of accounting policy adopted by the management level and the reasonableness of accounting estimates and related disclosures.


(4) Conclude on the appropriateness of sustainable operation assumption by the management level. Based on the audit evidence obtained, whether a material uncertainty exists related to the events or conditions that cast significant doubt on the Traffic Holding Company's ability to continue as a going concern. If we conclude that there are significant uncertainties, the auditing standards require us to notify the users about relevant disclosures of the financial statement in the audit report; if the disclosures are insufficient, we should express opinions without reservations. Our conclusions are based on the information available as of the audit report date. However, future events or conditions may cause the Huai'an Traffic Holding Company to cease to continue as a going concern.


(5) Evaluate the overall presentation, structure and content (including disclosure) of financial statement, and evaluate whether the financial statement fairly reflects relevant transactions and events.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the Huai'an Traffic Holding Company or its business activities to express an opinion on the financial statements. We are responsible for guiding, supervising and executing group audit. We hold full responsibilities for the audit opinions.

We communicate with the governance level on planned audit scope, timing, major audit findings and other matters, including communication of the internal control defects that we have identified during the audit.



Chinese Certified Public Accountant: 

Chinese Certified Public Accountant: 

Monday, April 15, 2019

# Consolidated Balance Sheet

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Items	Notes	December 31, 2018	December 31, 2017	December 31, 2016
<b>Current assets:</b>				
Monetary fund	VI. 1	5,490,166,108.71	6,062,281,313.15	8,849,377,404.35
Financial assets measured at fair value and its changes included in current profits or losses				
Derivative financial assets				
Notes receivable and accounts receivable	VI. 2	3,551,084,530.22	2,801,136,034.37	2,097,882,596.95
Advance payments	VI. 3	78,283,018.27	36,463,663.30	31,832,126.61
Other receivables	VI. 4	6,012,468,320.93	8,742,053,862.23	5,454,416,626.73
Inventory	VI. 5	3,665,120,056.17	1,079,789,039.75	275,568,799.73
Assets held for sale				
<b>Non-current assets due within one year</b>				
Other current assets	VI. 6	276,441,226.30	162,253,118.32	68,536,718.63
<b>Total current assets</b>		<b>19,073,563,260.80</b>	<b>18,883,977,031.12</b>	<b>16,777,614,273.00</b>
<b>Non-current assets:</b>				
Available-for-sale financial assets	VI. 7	1,188,712,020.51	1,002,345,020.51	566,010,020.51
Held-to-maturity investments				
Long-term receivables				
Long-term equity investment	VI. 8	43,188,363.66	42,197,089.50	38,376,515.95
Investment real estate	VI. 9	45,805,400.00		
Fixed assets	VI. 10	4,567,057,049.84	4,339,319,992.96	4,011,120,921.09
Construction in progress	VI. 11	5,975,080,344.08	4,786,559,590.63	2,232,807,856.87
Productive biological assets				
Oil and gas assets				
Intangible assets	VI. 12	370,705,731.22	424,057,789.40	427,860,592.47
Development expenditures				
Goodwill	VI. 13	324,284,400.47	324,284,400.47	
Long-term deferred expenses	VI. 14	17,817,930.89	11,586,853.24	41,514,345.29
Deferred income tax assets:	VI. 15	37,873,072.58	31,047,858.03	16,176,624.58
Other non-current assets	VI. 16	12,949,808,723.74	12,859,333,745.60	12,852,869,905.60
<b>Total non-current assets</b>		<b>25,520,333,036.99</b>	<b>23,820,732,340.34</b>	<b>20,186,736,782.36</b>
<b>Total Assets</b>		<b>44,593,896,297.59</b>	<b>42,704,709,371.46</b>	<b>36,964,351,055.36</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

(Cont.)

## Consolidated balance sheet (continued)

Prepared by: Hual'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Items	Notes	December 31, 2018	December 31, 2017	December 31, 2016
<b>Current liabilities:</b>				
Short-term loan	VI. 17	942,000,000.00	652,004,767.38	2,366,400,000.00
Financial liabilities measured at fair value and its changes included in current profits or losses				
Derivative financial liabilities				
Notes payable and accounts payable	VI. 18	1,495,008,118.31	1,480,167,564.04	1,157,013,790.44
Advance receipts	VI. 19	492,934,382.76	97,706,086.50	26,931,829.45
Employee benefits payable		5,320,277.86	2,900,656.62	5,742,446.20
Taxes and fees payable	VI. 20	321,951,328.19	249,304,082.08	213,151,324.34
Other payables	VI. 21	1,514,477,641.81	2,849,360,835.17	680,515,930.40
Liabilities held for sale				
Non-current liabilities due within one year	VI. 22	4,013,230,000.00	1,262,870,000.00	1,910,000,000.00
Other current liabilities	VI. 23	300,000,000.00	353,862,246.00	1,121,431,471.97
<b>Total current liabilities</b>		<b>9,084,921,748.93</b>	<b>6,948,176,237.79</b>	<b>7,481,186,792.80</b>
<b>Non-current liabilities:</b>				
Long-term loan	VI. 24	6,673,080,000.00	6,781,970,000.00	3,678,290,000.00
Debts payable	VI. 25	119,817,321.87	7,551,206,234.52	5,744,806,684.56
Of which: preferred stock				
Perpetual debt				
Long-term payables	VI. 26	574,618,299.74	628,027,371.19	680,037,973.83
Long-term employee benefits payable				
Estimated liabilities				
Deferred income		252,024,542.42	51,285,927.50	14,368,000.00
Deferred income tax liabilities:	VI. 15	3,717,324.37		
Other non-current liabilities				
<b>Total non-current liabilities</b>		<b>14,623,257,488.40</b>	<b>15,012,489,533.21</b>	<b>10,117,502,658.39</b>
<b>Total Liabilities</b>		<b>23,708,179,237.33</b>	<b>21,960,665,771.00</b>	<b>17,598,689,451.19</b>
<b>Owner's equity</b>				
Paid-in capital	VI. 27	14,345,219,734.71	14,345,219,734.71	14,345,219,734.71
Other equity instruments	VI. 28	1,200,000,000.00	1,200,000,000.00	
Of which: preferred stock				
Perpetual debt		1,200,000,000.00	1,200,000,000.00	
Capital reserve	VI. 29	3,590,373,007.53	3,590,373,007.53	3,570,661,333.74
Less: treasury stock				
Other comprehensive income	VI. 30	11,151,973.09		
Special reserve				
Surplus reserve	VI. 31	171,716,000.04	148,950,272.39	124,655,597.20
Undistributed profit	VI. 32	1,358,384,671.15	1,285,731,000.74	1,170,403,950.45
Total equity attributable to owners of parent company		20,676,845,386.52	20,570,274,015.37	19,210,940,616.10
* Minority shareholder's interest		208,871,673.74	173,769,585.09	154,720,988.07
<b>Total owner's equity</b>		<b>20,885,717,060.26</b>	<b>20,744,043,600.46</b>	<b>19,365,661,604.17</b>
<b>Total liabilities and owner's equity</b>		<b>44,593,896,297.59</b>	<b>42,704,709,371.46</b>	<b>36,964,351,055.36</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

# Consolidated Income Statement

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Item	Notes	The Year of 2018	The Year of 2017	The Year of 2016
<b>I. Total operating incomes</b>		2,405,935,866.81	2,121,103,580.43	1,537,699,023.38
Of which: operating incomes	VI. 33	2,405,935,866.81	2,121,103,580.43	1,537,699,023.38
<b>II. Total operating costs</b>		2,558,838,749.94	2,223,890,313.56	1,628,512,082.38
Of which: operating costs	VI. 33	2,258,576,675.56	1,922,582,516.48	1,352,585,450.72
Taxes and surcharges		23,921,977.04	26,251,729.04	21,910,416.28
Sales expenses		45,384,109.05	35,641,757.18	25,033,655.80
Management expenses		196,496,492.17	173,801,926.18	140,022,630.02
Research and development expenditure				
Financial expenses	VI. 34	29,675,043.36	6,148,663.23	27,193,204.38
include: interest expense		50,326,165.68	75,938,988.90	30,118,276.42
interest income		22,907,605.81	20,184,239.55	3,070,627.46
Asset impairment losses	VI. 35	4,784,452.76	59,463,721.45	61,766,725.18
Plus: other income	VI. 36	248,194,909.31	246,628,373.84	
Investment revenues (losses marked with "-")	VI. 37	60,631,157.42	57,416,853.38	52,117,750.74
Of which: investment revenues to associated enterprises and joint ventures		1,401,057.06	839,563.87	9,408,350.74
Revenues from fair value changes (losses marked with "-")				
Asset disposal income ("-") means loss	VI. 38	31,915,792.37	-561,663.89	-1,726,673.69
<b>III. Operating profits (losses marked with "-")</b>		187,838,975.97	200,696,830.20	-40,421,981.95
Plus: Non-operating incomes	VI. 39	1,306,274.75	8,070,630.28	274,004,935.31
Less: Non-operating expenses	VI. 40	4,330,266.48	7,641,515.70	1,590,584.84
<b>IV. Total profits (total losses marked with "-")</b>		185,094,984.29	201,125,944.78	231,992,368.52
Less: Income tax expenses	VI. 41	42,573,497.57	33,334,096.00	12,979,082.37
<b>V. Net profits (net losses marked with "-")</b>		142,521,486.72	167,791,848.78	219,013,286.15
(1) Classified by business continuity:				
1. Net profits from sustainable operation (net losses marked with "-")		142,521,486.72	167,791,848.78	219,013,286.15
2. Net profit from discontinued operations (net loss presented with "-" prefix)				
(B) Classified by ownership				
1. Minority shareholders' profit or loss (net loss presented with "-")		40,972,488.66	28,170,123.30	-11,030,009.39
2. Net profit attributable to shareholders of the parent company ((net loss presented with "-")		101,548,998.06	139,621,725.48	230,043,295.54
<b>VI. Net other comprehensive incomes after tax</b>				
Net Amount of Other Comprehensive Gains Attributable to Owners of the Parent Company				
I. Items not to be reclassified into other comprehensive income				
1. Re-measure and re-define the variation in the benefit plan				
2. Other comprehensive income that fails to be transferred to profit or loss under the equity method				
(2) Other comprehensive income that shall be reclassified into profit or loss				
1. Other comprehensive that may be transferred to profit or loss under the equity method.				
2. Profit and loss arising from changes in fair value of available-for-sale financial assets				
3. Profit and loss of non-current investments reclassified as available-for-sale financial assets				
4. Effective portion of profit and loss of cash flow hedging				
5. Converted Difference in Foreign Currency Statements				
6. Others				
Net other comprehensive incomes after tax attributable to owners of minority shareholder				
<b>VII. Total comprehensive incomes</b>		142,521,486.72	167,791,848.78	219,013,286.15
Total comprehensive incomes attributable to owners of parent company		101,548,998.06	139,621,725.48	230,043,295.54
Total comprehensive incomes attributable to minority shareholder		40,972,488.66	28,170,123.30	-11,030,009.39

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

## Consolidated Cash Flow Statement

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Item	Notes	The Year of 2018	The Year of 2017	The Year of 2016
<b>I. Cash flow from operating activities:</b>				
Cash received from goods sales or labor service provision		1,856,009,836.48	1,580,387,287.09	1,465,754,683.37
Received refund of taxes and fees				
Other cash received related to operating activities		1,357,461,175.62	1,675,843,640.35	1,560,099,080.63
<b>Sub-total of cash inflow in operating activities</b>		<b>3,213,471,012.10</b>	<b>3,256,230,927.44</b>	<b>3,025,853,764.00</b>
Cash paid to buy goods and receive labor service		1,701,962,696.78	1,270,030,663.19	1,010,431,142.04
Cash paid to employees and paid for employees		288,586,179.83	301,788,953.82	213,210,337.09
Taxes and fees paid		92,375,720.22	54,486,947.42	32,503,011.10
Other cash paid related to operating activities		849,410,092.09	1,291,981,528.35	1,243,089,015.47
<b>Sub-total of cash outflow in operating activities</b>		<b>2,932,334,688.92</b>	<b>2,918,288,092.78</b>	<b>2,499,233,505.70</b>
<b>Net cash flow from operating activities</b>		<b>281,136,323.18</b>	<b>337,942,834.66</b>	<b>526,620,258.30</b>
<b>II. Cash flow from investing activities</b>				
Cash from investment withdrawal			20,300,000.00	79,600,000.00
Cash from investment income		4,422,883.26	56,596,279.83	55,709,400.00
Net cash received from disposal of fixed assets, intangible assets, and other long-term investment		141,944,396.88	3,013,859.13	881,361.29
Net cash received from disposal of subsidiaries and other business units				
Other cash received related to investing activities			7,769,000.00	
<b>Sub-total of cash inflow in investing activities</b>		<b>146,367,280.14</b>	<b>87,679,138.96</b>	<b>136,190,761.29</b>
Cash Paid for Acquisition or Construction of Fixed Assets, Intangible Assets and Other Long-Term Assets		143,909,028.41	805,168,049.37	506,248,477.53
Cash paid for investment		129,500,000.00	1,530,183,303.00	671,441,057.00
Net cash from payment by subsidiaries and other business units				
Other cash paid related to investing activities				
<b>Sub-total of cash outflow in investing activities</b>		<b>273,409,028.41</b>	<b>2,335,351,352.37</b>	<b>1,177,689,534.53</b>
<b>Net cash flow from investing activities</b>		<b>-127,037,748.27</b>	<b>-2,247,672,213.41</b>	<b>-1,041,498,773.24</b>
<b>III. Cash flow from financing activities:</b>				
Cash received from capital contribution				313,190,000.00
Of which: cash received by subsidiaries from minority shareholder's capital contribution				
Cash received from the borrowings		2,795,705,000.00	4,907,493,328.00	8,685,913,068.63
Cash received from issuing bonds		2,700,000,000.00	2,000,000,000.00	4,354,806,684.56
Other cash received related to financing activities		25,495,786.50	1,986,958,914.63	
<b>Sub-total of cash inflow in financing activities</b>		<b>5,521,200,786.50</b>	<b>8,894,452,242.63</b>	<b>13,353,909,753.19</b>
Cash paid for repayment of debt		4,243,763,833.15	4,173,449,205.26	3,395,380,955.88
Cash payments for distribution of dividends or profits or paid for interest		1,349,835,919.32	1,165,693,469.56	506,802,774.46
Of which: dividends and profits paid by subsidiaries to minority shareholder				
Other cash paid related to financing activities		609,181,098.41	557,389,995.23	5,821,818,043.56
<b>Sub-total of cash outflow in financing activities</b>		<b>6,202,780,850.88</b>	<b>5,896,532,670.05</b>	<b>9,724,001,783.90</b>
<b>Net cash flow from financing activities</b>		<b>-681,580,064.38</b>	<b>2,997,919,572.58</b>	<b>3,629,907,969.29</b>
<b>IV. Influence of exchange rate changes to cash and cash equivalents</b>				
<b>V. Net increase in cash and cash equivalents</b>		<b>-527,481,489.47</b>	<b>1,088,190,193.83</b>	<b>3,115,029,454.35</b>
Plus: opening balance of cash and cash equivalents		6,016,847,598.18	4,928,657,404.35	1,813,627,950.00
<b>VI. Closing balance of cash and cash equivalents</b>		<b>5,489,366,108.71</b>	<b>6,016,847,598.18</b>	<b>4,928,657,404.35</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

# Consolidated Owner's Equity Change Statement

The Year of 2018

Owner's equity attributable to parent company

Amount Unit: RMB

Item	Paid-in capital		Other equity instruments		Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Sub-total	* Minority shareholder's interest	Total owner's equity
	Preference shares	Perpetual debt	Others	Others									
I. Balance at the end of last year	14,345,219,734.71				3,590,373,007.53				148,950,272.39	1,285,731,000.74	20,570,274,015.37	173,769,585.09	20,744,043,600.46
Plus: changes in accounting policies													
Correction of previous errors													
Enterprise merge under the same control													
Others													
II. Balance at the beginning of this year	14,345,219,734.71				3,590,373,007.53				148,950,272.39	1,285,731,000.74	20,570,274,015.37	173,769,585.09	20,744,043,600.46
III. Increase/Decrease in Current Period ("-" means decrease)													
(I) Total comprehensive incomes													
(II) Capital contributed by owners and capital decreases													
1. Invested capital by the Shareholders													
2. Other interest Owner invested capital													
3. Amount of stock payment included in owner's equity													
4. Others													
(III) Appropriation of the profit													
1. Withdrawal of the Surplus Reserves													
2. Withdrawal of the General Risk Reserves													
3. Distribution to owners													
4. Others													
(IV) Internal Transfer of Shareholders' Equity													
1. Capital reserve to increase capital													
2. Surplus reserve to increase capital													
3. Cover losses with surplus reserves													
4. Set the benefit plan changes to be carried out into retained earnings													
5. Others													
(V) Special Reserves													
1. Withdrawal in this period													
2. Used in this period													
(VI) Miscellaneous													
(IV) Balance at the end of this year	14,345,219,734.71				3,590,373,007.53				171,716,000.04	1,369,384,671.16	20,676,645,386.52	208,871,673.74	20,865,717,060.26

Accounting firm director:

Financial director:

(The attached annex to the financial statements is an integral part of the financial statements)

Legal Representative

# Consolidated Statement of Changes in Equity (Continued)

Amount Unit: RMB

Item	The Year of 2017											
	Owner's equity attributable to parent company											
	Paid-in capital	Preference shares	Other equity instruments	Capital reserve	Less: treasury stock	Other comprehensive	Special reserve	Surplus reserve	Undistributed profit	Sub-total	* Minority shareholder's Interest	Total owner's equity
I. Balance at the end of last year	14,345,219,734.71			3,570,661,333.74				124,655,597.20	1,170,403,950.45	19,210,940,616.10	154,720,988.07	19,365,661,604.17
Plus: changes in accounting policies												
Correction of previous errors												
Enterprise merge under the same control												
Others												
II. Balance at the beginning of this year	14,345,219,734.71			3,570,661,333.74				124,655,597.20	1,170,403,950.45	19,210,940,616.10	154,720,988.07	19,365,661,604.17
III. Increase/Decrease in Current Period ("-" means decrease)												
(I) Total comprehensive incomes												
(II) Capital contributed by owners and capital decreases												
1. Invested capital by the Shareholders												
2. Other Interest Owner Invested capital												
3. Amount of stock payment included in owner's equity												
4. Others												
(III) Appropriation of the profit												
1. Withdrawal of the Surplus Reserves												
2. Withdrawal of the General Risk Reserves												
3. Distribution to owners												
4. Others												
(IV) Internal Transfer of Shareholders' Equity												
1. Capital reserve to increase capital												
2. Surplus reserve to increase capital												
3. Cover losses with surplus reserves												
4. Set the benefit plan changes to be carried out into retained earnings												
5. Others												
(V) Special Reserves												
1. Withdrawal in this period												
2. Used in this period												
(VI) Miscellaneous												
(IV) Balance at the end of this year	14,345,219,734.71			3,590,373,007.53				148,950,272.39	1,285,731,000.74	20,570,274,015.37	173,789,585.09	20,744,043,600.46

Financial director: \_\_\_\_\_ Accounting firm director: \_\_\_\_\_

## Consolidated Statement of Changes in Equity (Continued)

Amount Unit: RMB

Item	The Year of 2016												
	Owner's equity attributable to parent company												
	Paid-in capital	Preference shares	Perpetual debt	Others	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Sub-total	* Minority shareholders' interest	Total owner's equity
I. Balance at the end of last year	1,417,539,598.11				3,570,661,333.74				102,924,625.74	962,091,826.37	6,053,217,183.96	125,318,648.04	6,178,535,832.00
Plus: changes in accounting policies													
Correction of previous errors													
Enterprise merge under the same control													
Others													
II. Balance at the beginning of this year	1,417,539,598.11				3,570,661,333.74				102,924,625.74	962,091,826.37	6,053,217,183.96	125,318,648.04	6,178,535,832.00
III. Increase/Decrease in Current Period ("+" means decrease)	12,927,680,136.60								21,730,971.46	208,312,324.08	13,157,723,432.14	29,402,340.03	13,187,125,772.17
(I) Total comprehensive incomes										230,043,295.54	230,043,295.54	-11,030,009.39	219,013,286.15
(II) Capital contributed by owners and capital decreases	12,927,680,136.60												
1. Invested capital by the Shareholders													
2. Other Interest Owner Invested capital													
3. Amount of stock payment included in owner's equity													
4. Others	12,927,680,136.60												
(III) Appropriation of the profit Reserves									21,730,971.46	-21,730,971.46			
1. Withdrawal of the Surplus Reserves									21,730,971.46				
2. Withdrawal of the General Risk Reserves													
3. Distribution to owners													
4. Others													
(IV) Internal Transfer of Shareholders' Equity													
1. Capital reserve to increase capital													
2. Surplus reserve to increase capital													
3. Cover losses with surplus reserves													
4. Set the benefit plan changes to be carried out into retained earnings													
5. Others													
(V) Special Reserves													
1. Withdrawal in this period													
2. Used in this period													
(VI) Miscellaneous													
(IV) Balance at the end of this year	14,345,219,734.71				3,570,661,333.74				124,655,597.20	1,170,403,950.45	19,210,940,616.10	154,720,988.07	19,365,661,604.17

(The attached annex to the financial statements is an integral part of the financial statements)

Legal Representative

Financial director:

Accounting firm director:

## Balance Sheet

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Items	Notes	December 31, 2018	December 31, 2017	December 31, 2016
<b>Current assets:</b>				
Monetary fund		3,949,468,970.30	4,015,358,279.09	7,686,326,312.97
Financial assets measured at fair value and its changes included in current profits or losses				
Derivative financial assets				
Notes receivable and accounts receivable	XIII. 1	1,686,912,371.30	1,478,110,738.04	1,283,309,104.78
Advance payments				
Other receivables	XIII. 2	7,964,957,260.87	7,825,749,416.91	5,737,732,589.98
Inventory		977,937,012.03	417,986,817.42	
Assets held for sale				
Non-current assets due within one year				
Other current assets				
<b>Total current assets</b>		<b>14,579,275,614.50</b>	<b>13,756,685,251.46</b>	<b>14,707,368,007.73</b>
<b>Non-current assets:</b>				
Available-for-sale financial assets		1,047,261,906.00	890,894,906.00	506,359,906.00
Held-to-maturity investments				
Long-term receivables				
Long-term equity investment	XIII. 3	3,770,985,715.38	3,549,803,239.93	1,691,288,997.02
Investment real estate		45,895,400.00		
Fixed assets		2,807,192,253.70	2,890,383,328.74	2,906,741,608.81
Construction in progress		2,467,167,877.79	1,493,934,372.99	1,792,635,541.97
Productive biological assets				
Oil and gas assets				
Intangible assets		33,955,107.90	85,690,568.73	88,424,705.73
Development expenditures				
Goodwill				
Long-term deferred expenses				28,000,000.00
Deferred income tax assets:		10,481,798.96	9,266,005.89	2,633,399.07
Other non-current assets		12,949,808,723.74	12,859,333,745.60	12,852,869,905.60
<b>Total non-current assets</b>		<b>23,132,658,803.47</b>	<b>21,759,826,167.88</b>	<b>19,868,954,064.20</b>
<b>Total Assets</b>		<b>37,711,934,417.97</b>	<b>35,516,511,419.34</b>	<b>34,576,322,071.93</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

(Cont.)

## Balance sheet (continued)

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Items	Notes	December 31, 2018	2017/12/31	December 31, 2016
<b>Current liabilities:</b>				
Short-term loan		360,000,000.00	160,000,000.00	1,734,900,000.00
Financial liabilities measured at fair value and its changes included in current profits or losses				
Derivative financial liabilities				
Notes payable and accounts payable				
Advance receipts				
Employee benefits payable				
Taxes and fees payable		179,275,991.47	153,439,621.01	123,073,564.52
Other payables		1,169,561,458.64	2,155,743,420.28	3,229,521,612.59
Liabilities held for sale				
Non-current liabilities due within one year		3,828,830,000.00	1,043,000,000.00	1,600,000,000.00
Other current liabilities		300,000,000.00		
<b>Total current liabilities</b>		<b>5,837,667,450.11</b>	<b>3,512,183,041.29</b>	<b>6,687,495,177.11</b>
<b>Non-current liabilities:</b>				
Long-term loan		4,169,580,000.00	4,058,370,000.00	3,178,290,000.00
Debts payable		7,119,817,321.87	7,551,206,234.52	5,744,806,684.56
Of which: preferred stock				
Perpetual debt				
Long-term payables		566,254,544.28	619,663,615.73	625,923,434.37
Long-term employee benefits payable				
Estimated liabilities				
Deferred income				
Deferred income tax liabilities:		3,717,324.37		
Other non-current liabilities				
<b>Total non-current liabilities</b>		<b>11,859,369,190.52</b>	<b>12,229,239,850.25</b>	<b>9,549,020,118.93</b>
<b>Total Liabilities</b>		<b>17,697,036,640.63</b>	<b>15,741,422,891.54</b>	<b>16,236,515,296.04</b>
<b>Owner's equity</b>				
Paid-in capital		14,345,219,734.71	14,345,219,734.71	14,345,219,734.71
Other equity instruments		1,200,000,000.00	1,200,000,000.00	
Of which: preferred stock				
Perpetual debt		1,200,000,000.00	1,200,000,000.00	
Capital reserve		2,848,637,150.63	2,847,637,150.63	2,855,302,150.63
Less: treasury stock				
Other comprehensive income		11,151,973.09		
Special reserve				
Surplus reserve		167,688,240.50	144,922,512.85	120,627,837.66
Undistributed profit		1,442,200,678.41	1,237,309,129.61	1,018,657,052.89
<b>Total owner's equity</b>		<b>20,014,897,777.34</b>	<b>19,775,088,527.80</b>	<b>18,339,806,775.89</b>
<b>Total liabilities and owner's equity</b>		<b>37,711,934,417.97</b>	<b>35,516,511,419.34</b>	<b>34,576,322,071.93</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

# Income Statement

Prepared by: Hual'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Item	Notes	The Year of 2018	The Year of 2017	The Year of 2016
<b>I. operating incomes</b>	XIII. 4	200,260,055.17	229,886,286.43	227,701,026.82
Less: operating costs	XIII. 4	9,471,455.04	14,485,894.36	13,589,781.14
Taxes and surcharges		3,377,814.78	12,349,688.45	12,349,688.45
Sales expenses				
Management expenses		33,400,566.56	28,725,057.87	20,926,592.83
Research and development expenditure				
Financial expenses		670,954.81	-49,910,984.33	28,321.52
Asset impairment losses		4,863,172.28	26,530,427.31	10,186,078.14
Plus: other income				
Investment revenues (losses marked with "-")		59,948,773.74	57,810,145.44	52,945,921.06
Of which: investment revenues to associated enterprises and joint ventures				
Revenues from fair value changes (losses marked with "-")				
Asset disposal income ("- means loss)		32,093,357.87		
<b>II. Operating profits (losses marked with "-")</b>		240,518,223.31	255,516,348.21	223,566,485.80
Plus: Non-operating incomes			1,360,000.00	
Less: Non-operating expenses		1,165,235.66	2,023,067.42	3,791,735.09
<b>III. Total profit (total loss expressed with "-")</b>		239,352,987.65	254,853,280.79	219,774,750.71
Less: Income tax expenses		11,695,711.20	11,906,528.88	2,465,036.09
<b>IV. Net profit (net loss expressed with "-")</b>		227,657,276.45	242,946,751.91	217,309,714.62
(1) Net operating profit (net loss expressed with "-")		227,657,276.45	242,946,751.91	217,309,714.62
(II) Net profit from discontinued operations (net loss presented with "-" prefix)				
<b>V. Net other comprehensive incomes after tax</b>				
I. Items not to be reclassified into other comprehensive income				
1. Re-measure and re-define the variation in the benefit plan				
2. Other comprehensive income that fails to be transferred to profit or loss under the equity method				
(2) Other comprehensive income that shall be reclassified into profit or loss				
1. Other comprehensive that may be transferred to profit or loss under the equity method.				
2. Profit and loss arising from changes in fair value of available-for-sale financial assets				
3. Profit and loss of held-to-maturity investments reclassified as available-for-sale financial assets				
4. Effective portion of profit and loss of cash flow hedging				
5. Converted Difference in Foreign Currency Statements				
6. Others				
<b>VI. Total comprehensive incomes</b>		227,657,276.45	242,946,751.91	217,309,714.62

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

## Cash flow statement

Prepared by: Huai'an Traffic Holdings Co., Ltd.

Amount Unit: RMB

Item	Notes	The Year of 2018	The Year of 2017	The Year of 2016
<b>I. Cash flow from operating activities:</b>				
Cash received from goods sales or labor service provision		200,260,055.17	230,233,063.83	231,695,521.30
Received refund of taxes and fees				
Other cash received related to operating activities		173,983,290.50	201,360,000.00	200,210,047.60
<b>Sub-total of cash inflow in operating activities</b>		<b>374,243,345.67</b>	<b>431,593,063.83</b>	<b>431,905,568.90</b>
Cash paid to buy goods and receive labor service		130,534,793.79	7,283,196.72	12,870,582.00
Cash paid to employees and paid for employees		13,673,089.51	11,387,484.78	3,092,815.54
Taxes and fees paid		24,239,102.18	12,108,050.54	1,328,478.95
Other cash paid related to operating activities		174,441,213.24	289,662,044.41	279,190,028.02
<b>Sub-total of cash outflow in operating activities</b>		<b>342,888,198.72</b>	<b>320,440,776.45</b>	<b>296,481,904.51</b>
<b>Net cash flow from operating activities</b>		<b>31,355,146.95</b>	<b>111,152,287.38</b>	<b>135,423,664.39</b>
<b>II. Cash flow from investing activities</b>				
Cash from investment withdrawal				
Cash from investment income		3,863,100.36	56,177,000.00	55,367,000.00
Net cash received from disposal of fixed assets, intangible assets, and other long-term investment		1,902,000.00		
Other cash received related to investing activities				
<b>Sub-total of cash inflow in investing activities</b>		<b>145,765,100.36</b>	<b>56,177,000.00</b>	<b>55,367,000.00</b>
Cash Paid for Acquisition or Construction of Fixed Assets, Intangible Assets and Other Long-Term Assets		14,850.00	6,590,869.00	453,163.00
Cash paid for investment		139,443,802.07	2,258,964,400.47	443,541,057.00
Other cash paid related to investing activities				
<b>Sub-total of cash outflow in investing activities</b>		<b>139,458,652.07</b>	<b>2,265,555,269.47</b>	<b>443,994,220.00</b>
<b>Net cash flow from investing activities</b>		<b>6,306,448.29</b>	<b>-2,209,378,269.47</b>	<b>-388,627,220.00</b>
<b>III. Cash flow from financing activities:</b>				
Cash received from capital contribution				
Cash received from the borrowings		2,135,000,000.00	3,484,488,328.00	8,226,548,068.63
Cash received from issuing bonds		2,700,000,000.00	2,000,000,000.00	4,201,150,000.00
Other cash received related to financing activities			2,273,297,790.68	153,656,684.56
<b>Sub-total of cash inflow in financing activities</b>		<b>4,835,000,000.00</b>	<b>7,757,786,118.68</b>	<b>12,581,354,753.19</b>
Cash paid for repayment of debt		3,438,903,600.53	3,463,213,580.64	3,085,017,926.78
Cash payments for distribution of dividends or profits or paid for interest		916,761,991.59	980,198,205.56	480,739,059.51
Other cash paid related to financing activities		608,381,098.41	968,396,384.27	5,927,019,289.36
<b>Sub-total of cash outflow in financing activities</b>		<b>4,964,046,690.53</b>	<b>5,411,808,170.47</b>	<b>9,492,776,275.65</b>
<b>Net cash flow from financing activities</b>		<b>-129,046,690.53</b>	<b>2,345,977,948.21</b>	<b>3,088,578,477.54</b>
<b>IV. Influence of exchange rate changes to cash and cash equivalents</b>				
<b>V. Net increase in cash and cash equivalents</b>		<b>-91,385,095.29</b>	<b>247,751,966.12</b>	<b>2,835,374,921.93</b>
Plus: opening balance of cash and cash equivalents		4,015,358,279.09	3,767,606,312.97	932,231,391.04
<b>VI. Closing balance of cash and cash equivalents</b>		<b>3,923,973,183.80</b>	<b>4,015,358,279.09</b>	<b>3,767,606,312.97</b>

(The attached annex to the financial statements is an integral part of the financial statements)

Legal representative:

Accounting director:

Accounting firm director:

## Shareholders' Equity Variation list

Amount Unit: RMB

Item	Paid-in capital	Other equity instruments			Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
		Preference shares	Perpetual debt	Others							
I. Balance at the end of last year	14,345,219,734.71		1,200,000,000.00		2,847,637,150.63				144,922,512.85	1,237,309,129.61	19,775,088,527.80
Plus: changes in accounting policies											
Correction of previous errors											
Others											
II. Balance at the beginning of this year	14,345,219,734.71		1,200,000,000.00		2,847,637,150.63				144,922,512.85	1,237,309,129.61	19,775,088,527.80
III. Increase/Decrease in Current period ("-" means decrease)											
(I) Total comprehensive incomes											
(II) Capital contributed by owners and capital decreases											
1. Invested capital by the Shareholders					1,000,000.00						
2. Other Interest Owner invested capital											
3. Amount of stock payment included in owner's equity											
4. Others					1,000,000.00						1,000,000.00
(III) Appropriation of the profit											
1. Withdrawal of the Surplus Reserves									22,765,727.65	-22,765,727.65	
2. Withdrawal of the General Risk Reserves									22,765,727.65	-22,765,727.65	
3. Distribution to owners											
4. Others											
(IV) Internal Transfer of Shareholders' Equity											
1. Capital reserve to increase capital											
2. Surplus reserve to increase capital											
3. Cover losses with surplus reserves											
4. Set the benefit plan changes to be carried out into retained earnings											
5. Others											
(V) Special Reserves											
1. Withdrawal in this period											
2. Used in this period											
(VI) Miscellaneous											
(IV) Balance at the end of this year	14,345,219,734.71		1,200,000,000.00		2,848,637,150.63				167,668,240.50	1,442,200,678.41	20,014,897,777.34

The financial statements is an integral part of the financial statements)

Accounting firm director:

Financial director:

Legal Representative

# Statement of Changes in Owners' Equity (Continued)

Prepared by: Hua'an Traffic Holdings Co., Ltd.

Item	The Year of 2017										Amount Unit: RMB	
	Paid-in capital	Other equity instruments			Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit		Total owner's equity
		Preference shares	Perpetual debt	Others								
I. Balance at the end of last year	14,345,219,734.71				2,855,302,150.63				120,627,637.66	1,018,657,052.89	18,339,806,775.89	
Plus: changes in accounting policies												
Correction of previous errors												
Others												
II. Balance at the beginning of this year	14,345,219,734.71				2,855,302,150.63				120,627,637.66	1,018,657,052.89	18,339,806,775.89	
III. Increase/Decrease in Current Period ("+" means decrease)			1,200,000,000.00		-7,665,000.00			24,294,675.19	24,294,675.19	218,652,076.72	1,436,281,751.91	
(I) Total comprehensive incomes										242,946,751.91	242,946,751.91	
(II) Capital contributed by owners and capital decreases					-7,665,000.00						-7,665,000.00	
1. Invested capital by the Shareholders												
2. Other Interest Owner invested capital												
3. Amount of stock payment included in owner's equity												
4. Others												
(III) Appropriation of the profit												
1. Withdrawal of the Surplus Reserves					-7,665,000.00			24,294,675.19	24,294,675.19	-24,294,675.19	-7,665,000.00	
2. Withdrawal of the General Risk Reserves								24,294,675.19	24,294,675.19	-24,294,675.19		
3. Distribution to owners												
4. Others												
(IV) Internal Transfer of Shareholders' Equity Reserves												
1. Capital (or Stock) Increase from Capital Reserves												
2. Capital (or Stock) Increase from Surplus Reserves												
3. Cover losses with surplus reserves												
4. Set the benefit plan changes to be carried out into retained earnings												
5. Others												
(V) Special Reserves												
1. Withdrawal in this period												
2. Used in this period												
(VI) Miscellaneous												
1. Balance at the end of this year	14,345,219,734.71		1,200,000,000.00		2,847,637,150.63				144,922,512.85	1,237,309,129.61	1,200,000,000.00	
(The attached annex to the financial statements is an integral part of the financial statements)			1,200,000,000.00								19,775,088,527.80	

Legal Representative

Accounting firm director:

# Statement of Changes in Owners' Equity (Continued)

Amount Unit: RMB

Item	The Year of 2016				Total owner's equity				
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury stock		Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit
	Preference shares	Perpetual debt	Others						
I. Balance at the end of last year	1,417,539,598.11			2,855,302,150.63			98,896,866.20	823,078,309.73	5,194,816,924.67
Plus: changes in accounting policies									
Correction of previous errors									
Others									
II. Balance at the beginning of this year	1,417,539,598.11			2,855,302,150.63			98,896,866.20	823,078,309.73	5,194,816,924.67
III. Increase/Decrease in Current Period ("-" means decrease)	12,927,680,136.60						21,730,971.46	195,578,743.16	13,144,989,851.22
(I) Total comprehensive incomes									
(II) Capital contributed by owners and capital decreases	12,927,680,136.60								
1. Invested capital by the Shareholders									
2. Other Interest Owner invested capital									
3. Amount of stock payment included in owner's equity									
4. Others	12,927,680,136.60								
(III) Appropriation of the profit									
1. Withdrawal of the Surplus Reserves							21,730,971.46	-21,730,971.46	
2. Withdrawal of the General Risk Reserves									
3. Distribution to owners									
4. Others									
(IV) Internal Transfer of Shareholders' Equity									
1. Capital (or Stock) Increase from Capital Reserves									
2. Capital (or Stock) Increase from Surplus Reserves									
3. Cover losses with surplus reserves									
4. Set the benefit plan changes to be carried out into retained earnings									
5. Others									
(V) Special Reserves									
1. Withdrawal in this period									
2. Used in this period									
(VI) Miscellaneous									
(IV) Balance at the end of this year	14,345,219,734.71			2,855,302,150.63			120,627,837.66	1,018,657,052.89	18,339,806,775.89

(The attached annex to the financial statements is an integral part of the financial statements)

Legal Representative

Financial director:

Accounting firm director:

**Huai'an Traffic Holdings Co., Ltd.**

**Notes to 2016-2018 Annual Financial Statements**

**(Unless otherwise stated, Renminbi is the only monetary unit.)**

**I. Basic Information of the Company**

**(I) Registered location, organization form and headquarter address of the company**

Huai'an Traffic Holdings Co., Ltd. (hereinafter referred to as "the Company", together with its subsidiaries collectively as "the Group") is a company with limited liability (wholly state-owned) incorporated in 2003. The company has obtained Enterprise Business License Zi No. 320800000003908 issued by Administration for Industry and Commerce of Huaian City, Jiangsu Province on February 16, 2003 and the registered capital was RMB 1,417.5396 million contributed by the Huai'an Municipal People's Government, representing 100% of the registered capital. Legal representative: Zhang Huiyang, Registered address: No. 85, Huaihai South Road, Huai'an City, Corporate domicile: Room 3307, Fenghui Plaza, Huaihai East Road, Qinghe District, Huai'an City.

The company is a company with limited liability funded by the Huai'an Municipal People's Government in February 16, 2003, and the registered capital upon establishment was RMB 102.92 million, of which Huai'an Municipal People's Government contributed RMB 102.92 million, representing 100% of the registered capital. The above-mentioned paid-in capital was verified by Huaian Xinyuan Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Xin Kuai Zhao Yana (2003) No. 031.

On April 26, 2007, the capital was increased by the Company for 34.1135 million Yuan according to Huai Guo Zi [2007] No.29 and registered capital was changed from 102.92 million Yuan to 137.0335 million Yuan. of which Huai'an Municipal People's Government contributed RMB 34.1135 million, representing 100% of the registered capital, and this contribution was all from land transfer proceeds. After capital increase, equity structure was that Huaian Municipal People's Government contributed 230.1335 million Yuan and held a shareholding ratio of 100%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2007) No. 073 .

On June 2, 2009, the Company increased the capital by 48 million Yuan according to "Notice of The Municipal Government on Using Land Transfer Income of Partial Plots in the City to Increase Registered Capital of Huaian Traffic Holding Co., LTD" (Huai Zheng Fa [2009] No.46) and registered capital was changed from 137.0335 million Yuan to 185.0335 million Yuan. of which Huai'an Municipal People's Government contributed RMB 48 million, representing 100% of the registered capital, and this contribution was all from land transfer proceeds. After capital increase, equity structure was that Huaian Municipal People's Government contributed 230.1335 million Yuan and held a shareholding ratio of 100%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the

Capital Verification Report Huai Rui Yan Zi(2009) No. 073 .

On Monday, June 8, 2009, the Company increased the capital by 48 million Yuan according to "Notice of The Municipal Government on Using Land Transfer Income of Partial Plots in the City to Increase Registered Capital of Huaian Traffic Holding Co., LTD" (Huai Zheng Fa [2009] No.46) and registered capital was changed from 137.0335 million Yuan to 185.0335 million Yuan. of which Huai'an Municipal People's Government contributed RMB 45.10 million, representing 100% of the registered capital, and this contribution was all from land transfer proceeds. After capital increase, equity structure was that Huaian Municipal People's Government contributed 230.1335 million Yuan and held a shareholding ratio of 100%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2009) No. 084 .

On July 6, 2009, the company held a shareholders meeting, in which all shareholders agreed to amend the Articles of Association: the registered capital was increased from RMB 230.1335 million to RMB 430.4655 million, and agreed to receive the Suzhou Trust Co., Ltd. as the company's new shareholder, contributed RMB 200.3320 million in currency to subscribe equity of RMB 200.3320 million, representing 46.54% of the registered capital. According to the resolution of the shareholders meeting and the amendment to the articles of association, as of July 2, 2009, the company received the additional registered capital of RMB 200.3320 million from the new shareholder, Suzhou Trust Co., Ltd in cash of RMB 200.3320 million. After the capital increase, the paid-in capital was RMB 430.4655 million, of which Huai'an Municipal People's Government contributed RMB 230.1335 million, representing 53.46% of the registered capital and Suzhou Trust Co., Ltd. contributed RMB 200.3320 million, representing 46.54% of the registered capital. The capital increase was audited by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi (2009) No. 092 .

On July 14, 2009, according to the resolution of the shareholders meeting, the company's capital was increased by RMB 200.00 million, and the registered capital was changed from RMB 430.4655 million to RMB 630.4655 million, in which Suzhou Trust Co., Ltd. contributed RMB 200.00 million, representing 100% of the registered capital, and this contribution was all in currency. After the capital increase, the equity structure was: Huai'an Municipal People's Government contributed RMB 230.1335 million, with holding ratio of 36.50%; Suzhou Trust Co., Ltd. contributed RMB 400.3320 million, with holding ratio of 63.50%, The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2009) No. 098 .

On August 5, 2009, according to the resolution of the shareholders meeting, the company's capital was increased by RMB 199.6680 million, and the registered capital was changed from RMB 630.4655 million to RMB 830.1335 million, in which Suzhou Trust Co., Ltd. contributed RMB 199.6680 million, representing 100% of the registered capital, and this contribution was all in currency. After the capital increase, the equity structure was: Huai'an Municipal People's Government contributed RMB 230.1335 million, with holding ratio of 27.72%; Suzhou Trust Co., Ltd. contributed RMB 600 million, with holding

ratio of 72.28%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2009) No. 106 .

On August 7, 2009, according to the resolution of the shareholders meeting, the company's capital was increased by RMB 42.9588 million, and the registered capital was changed from RMB 830.1335 million to RMB 873.0923 million, in which Huai'an Municipal People's Government contributed RMB 42.9588 million, representing 100% of the registered capital, and this contribution was all in currency. After the capital increase, the equity structure was: Huai'an Municipal People's Government contributed RMB 273.0923 million, with holding ratio of 31.28%; Suzhou Trust Co., Ltd. contributed RMB 600 million, with holding ratio of 68.72%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2009) No. 115 .

On October 14, 2009, according to the resolution of the shareholders meeting, the company's capital was increased by RMB 35.5800 million, and the registered capital was changed from RMB 873.0923 million to RMB 908.6723 million, in which Huai'an Municipal Government contributed RMB 35.5800 million, representing 100% of the registered capital, including currency of RMB 2.48 million, representing 6.97% of additional registered capital; and share capital by converting capital reserve of RMB 33.10 million, representing 93.03% of the additional registered capital . After the capital increase, the equity structure was: Huai'an Municipal People's Government contributed RMB 308.6723 million, with holding ratio of 33.97%; Suzhou Trust Co., Ltd. contributed RMB 600 million, with holding ratio of 66.03%. The capital increase was verified by Huaian Xinrui Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Rui Yan Zi(2009) No. 123 .

In November 2009, according to the Minutes on the Integration of Partial Municipal State-owned Assets (No. 16) issued by the municipal government and the Notification on the Gratuitous Transfer of State-owned Equity in Traffic Holding Company issued by the Municipal SASAC, The equity of the company was gratuitously transferred by the Huai'an Municipal People's Government to Huai'an City Assets Sales Co., Ltd. and the registered capital after the transfer of equity was still RMB 908.6723 million, in which Huai'an Municipal People's Government contributed RMB 171.6423 million, representing 18.89% of the registered capital; Huai'an City Asset Management Co., Ltd. contributed RMB 137.03 million, representing 15.08% of the registered capital, Suzhou Trust Co., Ltd. contributed RMB 600.00 million, representing 66.03% of the registered capital . As at December 17, 2009, the procedures for the change of business registration of share transfer have been completed in Municipal administrative bureau for industry and commerce of Huai'an City, Jiangsu Province.

On December 15, 2010, according to the resolution of the shareholders meeting, the company's capital was increased by RMB 508.8673 million, and the registered capital was changed from RMB 908.6723 million to RMB RMB 1,417.5396 million, of which Huai'an Municipal People's Government contributed RMB 508.8673 million, representing 100% of the registered capital, and this contribution was all in equity. After the capital increase, the equity structure is: Huai'an Municipal People's Government

contributed RMB 680.5096 million, with holding ratio of 48.00%; Huai'an City Asset Management Co. Ltd. contributed RMB 137.03 million, representing 9.67% of the registered capital; Suzhou Trust Co., Ltd. Contributed RMB 600.00 million, with holding ratio of 42.33% . The capital increase was verified by Jiangsu Fuhua Certified Public Accountants Co., Ltd. with the Capital Verification Report Su Fu Kuai Yan[2010] No. 113.

According to the resolution of the shareholders meeting, Suzhou Trust Co., Ltd. signed a share transfer agreement with the Huai'an municipal Commission on State-Owned Assets Supervision and Administration (hereinafter referred to as the "SASAC") on August 16, 2012. According to the agreement, 42.33% of the stock of the holding company held by Suzhou Trust Company (equivalent to RMB 600.00 million) was transferred to SSAC as transferee in cash; According to the Approval of State-owned Equity Transfer in Municipal Traffic Holdings Co., Ltd. Huai Guo Zi [2010] No. 199 issued by SASAC, 9.67% of the stock of the Holding Company held by Huai'an City Assets Sales Co.,Ltd. (equivalent to RMB 137.03 million) was gratuitously transferred to the SASAC. After the above equity changes, the company became a wholly state-owned company in which SASAC exercises the investors' rights on behalf of the government. After the equity transfer, the registered capital was still RMB 1,417.5396 million, in which the Huai'an Municipal People's Government contributed RMB 1,417.5396 million, representing 100.00% of the registered capital. As at August 31, 2012, the procedures for the change of business registration of share transfer have been completed in Municipal administrative bureau for industry and commerce of Huai'an City, Jiangsu Province.

According to (2016) No. 24 letter from Huai'an Municipal People's Government, the company received non-monetary investment, including fixed assets RMB 5,074,999,848.00 and intangible assets RMB 7,852,680,288.60, from the government on May 2016. The Huai'an Xin Yuan asset evaluation Co., Ltd. has evaluated the assets in the form of (2016) No. 15 asset appraisal report. After addition of capital, the registered capital turns into RMB 1,417.5396 million, in which the Huai'an Municipal People's Government contributed RMB 1,417.5396 million, representing 100.00% of the registered capital. The capital increase was verified by Huaian Guoxin Certified Public Accountants Co., Ltd. with the Capital Verification Report Huai Guoxin Yan Bao(2017) No. 009 .

## **(II) Business nature and main operating activities of the company**

The businesses authorized by Huai'an municipal government include marketing, management, transfer and investment of state-owned properties, merger and union of enterprises, asset reorganization, contracting and renting, as well as other approved businesses among state-owned enterprises of urban communications, state-holding enterprises and other enterprises; investment, development, construction and management of traffic infrastructures; tourism services without ones operated by travel agencies; rental service of billboards; procurement and sale of steel, cement, construction material and engineering equipment; equity investment (i.e. non-security equity

investments) . (Operating items subject to approval by laws shall only be carried out with the approval of relevant departments).

### **(III) Approval of financial report**

This financial statement was approved and issued upon resolution from the company's board of directors on Monday, April 15, 2019.

### **(IV) Scope of consolidated statement**

A total of 38 subsidiaries are included in the 2018 consolidation scope of the company; for details, see Note VIII "Equities in other entities". The consolidation scope of the company in this period includes 3 households more than that in the previous period. For details, please refer to Note 7 "Changes in the consolidation scope".

## **II. Basis for the Preparation of Financial Statements**

### **1. Preparation basis**

Based on the continuing operation assumption, the financial statements of the company are formulated in line with actual transactions and events, as well as enterprise accounting standards and their application guidelines, interpretations and other relevant regulations, also collectively called as "Accounting Standards for Enterprises", promulgated by the Ministry of Finance.

According to relevant provisions of the accounting standards for enterprises, accounting in the company is conducted based on the accrual system. Apart from certain financial instruments, the financial statements are computed on the basis of historical costs. If an asset is impaired, the corresponding provision for impairment shall be made in accordance with the relevant provisions.

### **2. Continuing operations**

The financial statements are presented on the basis of continuing operations, and the company has the capacity of continuous operation for at least 12 months since the end of the reporting period.

## **III. Statement of Following the Accounting Standards for Enterprises**

The financial statements formulated by the company were in accordance with the requirements of accounting standards for enterprises, and they truly and completely reflected the company's consolidation and its parent company's financial status on Monday, December 31, 2018, as well as its consolidation and its parent company's operation results, consolidation, cash flow and other relevant information in 2018.

## **IV. Significant accounting policies and accounting estimate**

The company and its subsidiaries are engaged in rental and business services. Considering the characteristics of actual production and operation, as well as the accounting standards for relevant enterprises, the company and its subsidiaries have established certain specific accounting policies and accounting estimates for transactions and events, such as determination of revenues or the completed percentage of construction contracts. For details, please refer to Note IV. 24 Descriptions of "income". For details of the major accounting judgments and estimates made by management, please refer to Note

IV. 29 "Major accounting judgments and estimates".

**1. Accounting period**

The company's accounting period is divided into annual and medium-term periods. The latter is shorter than the reporting period of a complete accounting year. During accounting year, the Company adopts calendar year, starting from January 1st to December 31st.

**2. Operating Cycle**

The normal operating cycle refers to the period from purchasing assets for processing to realizing retrieval of cash or cash equivalents. With 12 months as an operating cycle, the company also uses this as a dividing standard for the liquidity of assets and liabilities.

**3. Reporting currency**

The company uses RMB as the standard currency for bookkeeping.

**4. Accounting treatment method of enterprise merger under and not under the same control**

Enterprise merger is defined as a transaction or event that at least two separate companies are combined to form a single reporting entity. Enterprise merger is divided as business combination under the same control and business combination under different controls.

**(1) Enterprise merge under the same control**

The enterprises involved in combination are ultimately controlled by the same party or parties before and after the combination. The control is not temporary, and the combination is under the same control. For business combinations under the same control, the party that obtains control over other participating enterprises on the acquisition date is the acquirer, and other enterprises that participate in the combination are the acquirees. The acquisition date refers to the date when the acquirer actually obtains control over the acquiree.

The assets and liabilities acquired by the acquirer are measured by the book value of the acquiree on the acquisition date. As for the difference between the book value of net assets obtained by the acquirer and the book value of combined consideration paid by the acquiree (or the total value of issued shares), capital reserve (i.e. equity premium) shall be adjusted; if the capital reserve (i.e. equity premium) is insufficient for write-off, the retained earnings shall be adjusted.

The direct expenses generated by the acquirer for the purpose of business combinations shall be recorded into the profits and losses for the current period.

**(2) Enterprise merge under the different control**

If the enterprises participating in the merger are not ultimately controlled by the same party or parties before and after the combination, the business combination is facilitated under different controls. For business combinations not under the same control, the party that obtains control over other participating enterprises on the acquisition date is the acquirer, and other enterprises that participate in the combination are the acquirees. The acquisition date refers to the date when acquirer actually obtains

control over acquiree.

For the business combinations under different controls, the combination cost includes the assets paid by the acquirer to obtain control over acquire on the acquisition date, the liabilities generated or undertaken and the fair value of the issued equity securities. The intermediary costs used for auditing, legal services, appraisal consulting and other administrative expenses during the process of business combination are included into the current profits and losses. The transaction costs of the marketable equity securities or debt securities issued by the acquirer as the combined consideration are included into the initial confirmation amount of marketable equity securities or debt securities. The involved considerations are included into the combination cost based on their fair value on the acquisition date. If any adjustments or considerations are demanded due to new or further evidences for pre-existing conditions about the acquisition date within 12 months after the acquisition date, according adjustments shall be made and goodwill shall be adjusted. The combination costs generated by the acquirer and the identifiable net assets obtained during the combination process are computed based on the fair value on the acquisition date. Goodwill is identified as the excess of combination cost over the fair value of identifiable net assets obtained by the acquirer in combination on the acquisition date. If the combination cost is less than the fair value of identifiable net assets obtained by acquiree in the combination, the fair value of identifiable assets, liabilities and/or contingent liabilities of the acquiree and the combination costs should be re-computed first. If the combination cost is still less than the fair value of identifiable net assets obtained by the acquiree in the combination, the difference shall be included into the current profits and losses.

If the acquiree's deductible temporary differences obtained by acquirer are unconfirmed due to inconformity to the identification conditions of deferred tax assets on the acquisition date, related deferred tax assets shall be affirmed, and goodwill shall be simultaneously reduced within 12 months after the acquisition date under the circumstances that new or further information indicates pre-existing information relevant to the acquisition date and that the economic interests generated from the acquirer's deductible temporary differences on the acquisition date can be achieved. When goodwill is insufficient for write-off, the difference can be recognized as profits and losses for the current period. Apart from the above situations, the deferred tax assets that have been confirmed to be correlated with business combination shall be included into profits and losses for the current period.

As for the business combination under different controls that is achieved by multiple transactions of exchange, it shall be judged whether the exchange belongs to "a package deal" according to the related judgement criteria proposed by "Information about the No. 5 explanation by Financial Ministry for printing and distributing accounting standards for business enterprises" (Accounting [2012] No. 19) and the 51st item of "No. 33 code of accounting standards for business enterprises-consolidated financial statements" (see Note 4; 5 ( 2 ). In the case of a "package deal", reference is made to the preceding paragraphs in this section and the accounting for long-term equity investment in Note IV.13.; if it does not

belong to a "package deal," separate the individual financial statements and the consolidated financial statements for related accounting treatment:

In the individual financial statements, the sum of the book value of the equity investment held by the purchased party prior to the purchase date and the new investment cost on the purchase date shall be taken as the initial investment cost of the investment; if the equity of the purchased party held before the acquisition date involves other comprehensive income, the other comprehensive income related to the acquisition of the investment will be accounted for on the same basis as that of the acquiree directly disposing of the relevant assets or liabilities (that is, other than the corresponding share of the change in the net liabilities or net assets of the beneficiary plan that was calculated by the acquiree in accordance with the equity method, the rest is transferred to the current investment income).

In the consolidated financial statements, the equity of the acquiree held before the purchase date is re-measured at the fair value of the equity at the acquisition date. The difference between the fair value and its carrying value is included in the current investment income; If the equity of the purchased party held before the acquisition date involves other comprehensive income, the other comprehensive income related to it shall be accounted for on the same basis as that of the acquiree directly disposing of the relevant assets or liabilities (that is, except for the corresponding share of the changes in the net liabilities or net assets of the beneficiary plan that was calculated by the acquiree after being accounted for under the equity method, the rest are transferred to the current investment income on the purchase date).

#### **5. Preparation of the consolidated financial statements**

##### **(1) The principle of determining the scope of consolidated financial statements**

The consolidation scope of the consolidated financial statements is determined on the basis of control. Control means that the Company has the power over the invested entity, earns variable return by participating in relevant activities of the invested entity, and has the ability to influence the return amount by exercising its power over the invested entity. The scope of consolidation includes the company and all its subsidiaries. Subsidiaries are those that are controlled by the company.

The company will conduct a reassessment once the relevant facts and changes in circumstances have caused changes in the relevant elements involved in the above control definition.

##### **(2) Method for compiling consolidated financial statements**

From the date of obtaining the actual control of the subsidiary's net assets and production and business decisions, the company began to include it in the scope of consolidation; and ceased to be included in the scope of consolidation from the date of loss of actual control: For the subsidiaries disposed of, the operating results and cash flows before the disposal date have been appropriately included in the consolidated income statement and the consolidated cash flow statement; subsidiaries disposed of during the current period do not adjust the opening balance of the consolidated balance sheet. For subsidiaries that are not under the same control and whose business combination is increased, the operating results and cash flows after the purchase date have been properly included in

the consolidated income statement and the consolidated cash flow statement, and the opening balance and comparison of the consolidated financial statements are not adjusted. For subsidiaries added under the same control under a business combination, the operating results and cash flows from the beginning of the merger period to the date of consolidation have been properly included in the consolidated income statement and the consolidated cash flow statement, and the comparative numbers of the consolidated financial statements have been adjusted at the same time.

In preparing of the consolidated financial statements, when the accounting policies or accounting period of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting policies or accounting period. For subsidiaries acquired under a business combination not under common control, the financial statements of the subsidiary are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All major current balances, transactions and unrealized profits in the company are offset when the consolidated financial statements are prepared.

The shareholder's equity of the subsidiary and the current portion of the net profit or loss that does not belong to the company are separately presented as minority shareholders' equity and minority shareholders' profits and losses under the item of shareholders' equity and net profit in the consolidated financial statements. The share of minority shareholders' equity in the current period's net profit or loss of the subsidiary is stated in the "minority shareholder's profit and loss" item under the net profit item in the consolidated income statement. The loss of the subsidiary shared by minority shareholders exceeds the minority shareholders' share of the company's shareholders' equity at the beginning of the period, and it still inflates minority equity.

When the control over the original subsidiary is lost due to the disposal of part of the equity investment or other reasons, the remaining equity shall be re-measured based on the fair value on the date of loss of control. The difference between the consideration obtained by disposing of the equity and the fair value of the remaining equity, minus the share of the share of the net assets that would have been calculated by the original subsidiary from the date of purchase as calculated by the original shareholding ratio, is included in the current period of loss of control. Investment income. Other comprehensive income related to the equity investment of the original subsidiary, when the loss of control right is used, the accounting basis is the same as that of the purchased party that directly disposes of the relevant assets or liabilities. (that is, except for the change in the net liabilities or net assets caused by the re-measurement of the defined subsidiaries in the original subsidiary, the rest will be converted into current investment income). Afterwards, the remaining equity of this part is subsequently measured in accordance with relevant regulations such as "Accounting Standards for Business Enterprises No. 2 - Long-term Equity Investment" or "Accounting Standards for Business

Enterprises No. 22 - Recognition and Measurement of Financial Instruments", for details, please refer to Note IV.13 "Long-term equity investment" or Note IV.9 "Financial Instruments".

If the company disposes of the equity investment in a subsidiary through multiple transactions until it loses control, it needs to distinguish whether each transaction that deals with the equity investment in the subsidiary until the control is lost is a package transaction. Terms, conditions and economic influence of various transactions for disposal of equity investments on the subsidiaries satisfy one or more conditions listed below, it generally indicates that multiple transaction items should be used as a package deal for accounting treatment: ① these transactions are concluded at the same time or in consideration of mutual influence; ② these transactions as a whole can achieve a complete business result; ③ occurrence of one transaction depends on the occurrence of at least one other transaction; ④ a transaction is uneconomical when viewed alone, but it is economic when considered together with other transactions. For those which don't belong to package deal, each transaction therein should be provided with accounting treatment in the principle of "partial disposal of long-term equity investment on the subsidiaries without losing the control right" (detailed in Note IV. 13 (2)④ ) and "losing original control right of the subsidiaries due to disposal of partial equity investment or other reasons" (detailed in the previous paragraph). Disposal of the equity investment in the subsidiary until the loss of control of the transaction is a package transaction, the transaction will be treated as a transaction to dispose of the subsidiary and lose control; however, before the loss of control, the difference between the disposal price and the share of the net assets of the subsidiary corresponding to the disposition of the investment is recognized in the consolidated financial statements as other comprehensive income. When the control right is lost, it is transferred to the loss of control at the same time. profit and loss.

#### **6. Classification of joint arrangements and accounting methods for joint operations**

Joint arrangement refers to an arrangement that is jointly controlled by two or more participants. The Company classifies joint arrangements into joint operations and joint ventures based on the rights it enjoys and the obligations it assumes during the joint venture arrangement. Joint operation refers to the joint venture arrangement in which the company enjoys the relevant assets of the arrangement and bears the liabilities of the arrangement. A joint venture refers to a joint venture arrangement where the company only has rights to the net assets of the arrangement.

Investment of the Company on cooperative enterprise should be accounted with equity method and disposed according to accounting policy stated in Note IV. 13(2)④ "long-term equity investment accounted with equity method".

The company operates jointly as a joint venture, confirming the assets held by the company alone, the liabilities the company assumed alone, and confirming jointly held assets and jointly assumed liabilities according to the shares of the company; confirming the income generated from the sale of the company's joint operating output share; the income generated from the sales of joint operations according to the company's share; confirming the expenses incurred by the company alone, and confirming the cost of joint operations according to the company's share.

When the company operates as a joint venture to jointly sell or sell assets (this asset does not constitute a business, the same below), or when purchasing assets from a joint operation, before the assets are sold to a third party. The company only recognizes the portion of profit or loss arising from this transaction that is attributable to other participants of the joint venture. If such assets meet the asset impairment loss as stipulated in the "Accounting Standards for Enterprises No. 8 - Asset Impairment", etc., for the case of the assets invested or sold by the company to the joint operations, the company fully confirms the losses; Where the company purchases assets from a joint operation, the company confirms the loss according to its share of commitments.

#### **7. Determination of cash and cash equivalents**

The company's cash and cash equivalents include cash on hand, deposits that can be used for payment at any time, investments that owned by the company which are in short-term (usually due within three months from the purchase date), highly liquid, easy to convert to a known amount of cash, low risk of value change.

#### **8. Foreign currency transactions and translation of foreign currency statements**

##### **(1) Conversion of foreign currency transactions**

When initially confirming the foreign currency transaction occurred by the company, it shall be converted into the functional currency according to the spot exchange rate on the transaction date. However, the foreign currency conversion business or the transaction involving foreign currency conversion that occurred in the company shall be converted into functional currency amount according to the actual exchange rate.

##### **(2) Conversion methods for foreign currency monetary items and foreign currency non-monetary items**

On the balance sheet date, foreign currency monetary items should be converted at spot rate on the balance sheet date and all incurred exchange differences, except: ① exchange balance occurred from special loan in foreign currency relating to construction of assets in consistent with capitalization conditions should be disposed in the principle of capitalized borrowing costs; ② exchange balance occurred from change of book balance of available-for-sale monetary items in foreign currencies should be included in other comprehensive income, should be included in the current profit and loss.

For the preparation of consolidated financial statements involving overseas operations, if there is a foreign currency monetary item that substantially constitutes a net investment in overseas operations, the exchange differences arising from changes in exchange rates are included in other comprehensive income; When disposing of overseas operations, transfer to disposal of current profits and losses.

Non-monetary foreign currency items measured at historical cost are still measured by the amount of functional currency converted at the spot exchange rate on the transaction date. Non-monetary foreign currency items measured at fair value shall be converted at the spot exchange rate on the date when the fair value was determined. The difference between the converted functional currency amount

and the original functional currency amount shall be treated as changes in fair value (including changes in exchange rates) and included in current profit or loss or confirmed as other comprehensive income.

(3) Conversion method of foreign currency financial statements

For the preparation of consolidated financial statements involving overseas operations, if there is a foreign currency monetary item that substantially constitutes a net investment in overseas operations, the exchange differences arising from changes in exchange rates shall be confirmed to be other comprehensive income as a "foreign currency conversion difference"; When disposing of overseas operations, included in disposal of current profit and loss.

The foreign currency financial statements of overseas operations are converted into Renminbi statements in the following manner: Assets and liabilities items in the balance sheet are converted at the spot exchange rate on the balance sheet date; items of shareholders' equity except "undistributed profits" items, other items Use the spot exchange rate at the time of occurrence. Income and expense items in the income statement are converted by the spot exchange rate on the transaction date. The opening undistributed profit is the undistributed profit at the end of last year after the conversion; the undistributed profits at the end of the year are calculated according to the profit distribution of the items after the conversion; the difference between the total count of asset class items and liabilities items and shareholder equity items after conversion is count as a foreign currency statement conversion difference, confirmed as other comprehensive income. When disposal foreign operations and the control rights are lost, the difference in foreign currency statements related to the overseas operations that are listed in the shareholders' equity items in the balance sheet is transferred to the current profit or loss, either in whole or in proportion to the disposal of the foreign operations.

Foreign currency cash flows and cash flows of overseas subsidiaries are converted at the spot exchange rate on the cash flow occurrence day. The impact of exchange rate changes on cash is treated as a reconciliation item and presented separately in the cash flow statement.

The opening balance and actual amount in the previous period are presented in the amount converted from the previous period's financial statements.

When disposing of the entire owner's equity of the company's overseas operations or the loss of overseas operations control rights due to the disposal of part of the equity investment or other reasons, the ownership of the company's equity in the balance sheet and the operations related to the overseas operations are attributed to the difference in conversion of foreign currency statements of owners' equity of the parent company and is transferred to the disposal of current profit or loss.

When disposing of part of the equity investment or other reasons that result in a reduction in the proportion of overseas operating equity but not losing control over overseas operations, the foreign exchange statement conversion differences related to the foreign operations disposal part will be attributed to minority shareholders' equity and will not be transferred to the current profits and losses. When disposing of partial equity in an overseas operation is an associate or a joint venture, the foreign

currency conversion difference related to the overseas operation is transferred to the disposal of current profit or loss in proportion to the disposal of the foreign operation.

## **9. Financial Instruments**

When the Company becomes a party to a contract of a financial instrument, the company shall recognize a financial asset or financial liability. Financial assets and financial liabilities are measured at fair value on initial confirmation. For financial assets and financial liabilities that are measured at fair value and its changes are included in current profit or loss, the relevant transaction costs are directly included in profit or loss. For other categories of financial assets and financial liabilities, related transaction costs are included in the initial confirmation amount.

### **(1) Determining method of the fair value of financial assets and financial liabilities**

Fair value refers to the price that a market participant can be received for the sale of an asset or the price he needs to pay for transferring a liability in an orderly transaction occurring on the measurement date. The company measures the fair value of financial assets and financial liabilities at the prices of major markets. If there is no major market, the fair value of financial assets and financial liabilities are measured at the most favorable market prices, the applicable available sufficient and current data and the other information supporting valuation techniques are also used. Input values in fair value measurement are divided into three levels, that is, the first level input value is the unadjusted price quoted in the active market for the same assets or liabilities that can be obtained on the measurement date; the second level input value is the input value that is directly or indirectly observable outside the input value of the relevant asset or liability in addition to the first level; the input value in the third level is the unobservable input value of the relevant asset or liability. The company prefers to use the first-level input value, and use the third-level input value finally. The level to which the fair value measured result belongs is determined by the lowest level of the input value that has the great significance to the overall fair value measurement.

### **(2) Classification, confirmation and measurement of financial assets**

The purchase and sale of financial assets in the normal way is subject to accounting confirmation and deconfirmation by the trading day. When initially confirmed, financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

#### **⊙ Financial assets measured at fair value and its changes included in current profits or losses**

Including transactional financial assets and financial assets that are designated at fair value through profit or loss.

Financial asset held for trading refers to the financial asset that meets at least one of the following conditions: A. It is acquired principally for the purpose of selling in the near term; B. It is part of a portfolio of identified financial instruments that are managed centrally and for which there is evidence of a recent actual pattern of short-term profit-taking; C. It is a derivative, but except for a derivative that is a

designated and effective hedging instrument, a derivative that is a financial guarantee contract, or a derivative that is linked with, and has to be settled through, an equity instrument that is not quoted in an active market and whose fair value cannot be measured reliably.

A financial asset that meets one of the following conditions may be designated as a financial asset that is measured at fair value through profit or loss at the time of initial confirmation: A. The designation can eliminate or significantly reduce the inconsistency in the confirmation or measurement of the related gains or losses due to the different measurement basis of the financial assets; B. The official written document of the company's risk management or investment strategy has stated that the financial assets combination which contains financial assets or the combination of financial assets and financial liabilities are managed and evaluated on the basis of fair value and report to the key management personnel

Financial assets measured at fair value through current profits or losses are subsequently measured at fair value. Any gains or losses arising from changes in fair value and any dividends and interest income related to these financial assets are included in current profit or loss.

② Held-to-maturity investments

Refers to non-derivative financial assets with a fixed due date, a fixed or recyclable amount, and the company's clear intention and ability to hold until maturity.

Held-to-maturity investments are measured at amortized cost by effective interest rate method. Gains or losses arising from derecognition, impairment, or amortization are included in current profit or loss.

The effective interest rate method refers to the method of calculating the amortized cost and the interest income or expenses of each period according to the effective interest rate of the financial assets or financial liabilities (including a group of financial assets or financial liabilities). Effective interest rate is the interest rate at which the future cash flows of the financial asset or liability in the expected duration or during shorter applicable time period are discounted into its present nominal value.

When calculating the effective interest rate, the Company will estimate the future cash flow (irrespective of future credit losses) on the basis of all the contractual terms of the financial assets or financial liabilities, and will also consider the payment of financial assets or financial liabilities between the parties to the contract. Or fees collected, charges that are part of the effective interest rate, transaction fees, discounts or premiums, etc.

③ Loans and receivables

It refers to the non-derivative financial assets that have no quoted price in an active market, with a fixed or determinable recovery amount. The financial assets classified by the company as loans and receivables include notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables.

Loans and receivables are subsequently measured at the amortized cost and the effective interest method. Gains or losses from de-recognition, impairment, or amortization are charged to profit or loss for

the current period.

④ Available-for-sale financial assets

It includes the non-derivative financial assets that are designated as available for sale at initial recognition, and financial assets charged to profit or loss for the current period other than financial assets at fair value, loans and receivables, and financial assets out of held-to-maturity investments.

The final cost of debt instrument investment available-for-sale is determined as the amortized cost method, which is the initial recognition amount minus the repaid principal, plus or minus the difference between the initial confirmation amount and the maturity date amount accumulated amortized as the effective interest method, reduce the amount of impairment loss that has occurred. The final cost of available-for-sale equity instrument investment is its initial acquisition cost.

Available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value, other than exchange differences related with impairment losses and foreign currency monetary financial assets and amortized costs in profit or loss for the current period, are recognized in other comprehensive income. When the financial asset is derecognized, it is transferred out and included in the current profit and loss. However, the equity instrument investments that are not quoted in an active market and whose fair value cannot be reliably measured, and the derivative financial assets that are linked to the equity instrument and must be settled through delivery of the equity instrument are subsequently measured at cost.

The interest earned during the period when the available-for-sale financial assets are held and the cash dividends declared by the investee are included in the investment income.

(3) Impairment of financial assets

Except for the financial assets that are measured at fair value through profit or loss, the company checks the book value of other financial assets at each balance sheet date. If there is objective evidence that the financial assets are impaired, the company should make the devaluation preparation.

The Company conducts the individual impairment tests on the individual significant financial assets; for the individual financial assets not significant, they are individually tested for impairment or included in the portfolio of financial assets with similar credit risk characteristics for impairment test. The individual tested financial assets that have not been impaired (including single significant and insignificant financial assets) are included in the portfolio of financial assets with similar credit risk characteristics for impairment test. The financial assets that have been individually recognized for impairment losses are not included in the portfolio of financial assets with similar credit risk characteristics for impairment test.

④ Impairment of investments, loans and receivables held-to-maturity

The book value of financial assets measured at cost or amortized cost are written down to the present value of estimated future cash flows. The write-down amount is recognized as impairment loss and included in the current profit or loss. After the impairment loss is recognized in a financial asset, if there is an objective evidence that the value of the financial asset has been recovered, which is

objectively related to the event that has occurred after the loss was confirmed, the previous recognized impairment loss is reversed. The book value of the financial asset reversed for loss does not exceed the amortized cost of the financial asset on the day of reverse under the assumption for no impairment,.

② Impairment of available-for-sale financial assets

As the comprehensive related factors, when the decline in the fair value of available-for-sale equity instrument investment is a serious or non-transient decline, it indicates that the available-for-sale equity instrument investment is impaired. Among them, the "serious decline" refers to the cumulative decline in the fair value more than 50% (including 50%); the "non-transient decline" refers to the continuous decline in fair value more than 12 months.

When the available-for-sale financial asset is impaired, the accumulative loss that is originally recorded in other comprehensive income due to the decline in fair value is transferred to the profit or loss for the current period. The accumulated loss is the balance of the initial acquisition cost of the asset less the paid principal and amortized amount, the current fair value and the impairment loss that has been included in profit or loss.

After the impairment loss is confirmed, if there is objective evidence that the value of the financial asset has been recovered after the period and it is objectively related to the event occurred after the loss is confirmed, the previous recognized impairment loss is reversed. The impairment loss of the available-for-sale equity instrument investment is reversed and recognized as other comprehensive income. The impairment loss of the available-for-sale debt instrument is reversed and included in the current profit or loss.

Equity instrument investments that do not have a quotation in an active market and whose fair value cannot be reliably measured, or impairment losses of derivative financial assets that are linked to the equity instrument and are settled by delivery of the equity instrument, are not reversed.

(4) Confirmation basis and measurement method of financial assets transfer

Financial assets satisfying any of the following conditions should be derecognized:① contractual rights for collecting cash flow of financial assets are terminated; ② the financial assets have been transferred and almost all risks and rewards for the ownership of financial assets are transferred to the transferee; ③ the financial assets have been transferred, although the enterprise neither transfer nor reserve all risks and rewards for the ownership of financial assets, the enterprise gives up control of financial assets.

If the enterprise neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it has not abandoned the control of that financial asset, the relevant financial asset is recognized at the extent of continuing involvement in the transferred financial asset and the corresponding liability is recognized accordingly. The extent of continuing involvement in the transferred financial assets refers to the level of risk that the company faces when the value of the financial assets changes.

If the overall transfer of financial assets satisfies the conditions for de-recognition, the difference

between the book value of the transferred financial assets and the sum of the consideration received due to the transfer and the cumulative amount of changes in the original fair value recorded in other comprehensive income should be included in the current profit or loss.

If the partial transfer of financial assets satisfies the derecognizing conditions, the book value of the transferred financial assets should be apportioned between the derecognized and un-terminated identifiable parts at their relative fair value, and the consideration received due to the transfer allocated to the difference between the sum of the accumulative amount of the original fair value changes recorded in other comprehensive income and the aforesaid book value of the derecognized part should be included in the current profit or loss.

When the company uses financial assets sold with recourse or sells financial assets held in an endorsement, it must determine whether all risks and rewards of ownership of the financial assets have been almost transferred. If all the risks and rewards of ownership of the financial asset are almost transferred to the transferee, and the financial asset is derecognized; if all the risks and rewards on the ownership of the financial asset are retained, the financial asset is not derecognized; all the risks and rewards of ownership of financial assets are not almost transferred or retained, continue to determine whether the company retains the control over the assets and perform the accounting operation based on the principles described in the preceding paragraphs.

#### (5) Classification and measurement of financial liabilities

Financial liabilities are initially classified into financial liabilities at fair value recorded in the current profit or loss and other financial liabilities. The initial recognized financial liabilities are measured at fair value. The financial liabilities at fair value recorded in the current profit or loss and relevant transaction costs are directly charged to the current profit or loss; the other financial liabilities and related transaction costs are included in the initial recognition amount.

##### ① Financial liabilities measured at fair value and its changes included in current profits or losses

The conditions of financial liabilities classified as transactional financial liabilities and the financial liabilities designated at initial recognition as fair value with the changes to the current profit or loss, and the conditions of financial assets classified as transactional financial assets and financial assets designated at initial recognition at fair value with the changes to the current profit or loss are consistent.

Financial liabilities at fair value to the current profit or loss are subsequently measured at fair value. Any gains or losses from changes in fair value and any dividends or interest payments relating to the financial liabilities are included in the current profit or loss.

##### ② Other financial liabilities

Derivative financial liabilities that are linked to equity instruments unavailable to be quoted in an active market and whose fair value cannot be reliably measured, settled by delivery of the equity instruments, are subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost with the actual interest rate method. Gains or losses from de-recognition or amortizations

are charged to the current profit or loss.

③ Financial guarantee contract

Financial guarantee contracts that are not classified as financial liabilities measured at fair value to the current profit or loss are initially recognized at fair value, and then, it should be subsequently measured the larger balance, one of them is determined in accordance with Accounting Standards for Enterprises No. 13 - Contingencies and the other is initial confirmation amount after deducting the accumulated amount of amortization determined in accordance with the principle of "Accounting Standards for Enterprises No. 14 - Revenue".

(6) De-recognition of financial liabilities

If the current obligation of a financial liability is discharged in whole or in part, and then the financial liability or part thereof may be derecognized. If the company (debtor) signs an agreement with the creditor to replace the existing financial liabilities with new financial liabilities, and the terms of the new financial liabilities and the existing financial liabilities are substantially different, and then the existing financial liabilities should be derecognized for the new financial Liabilities.

If the financial liability is derecognized in whole or in part, the difference between the book value of the derecognized part and the consideration paid (including non-cash assets transferred out or new financial liabilities assumed) should be included in the current profit or loss.

(7) Derivatives and embedded derivatives

Derivatives are initially measured at fair value on the date to sign the relevant contract, which are subsequently measured at fair value. Except for derivatives that are designated as hedging instruments with the high effective hedges, the fair value gains or losses should be recorded in the determined profit or loss period based on the nature of the hedging relationship and the requirements of hedge accounting. And the changes in value of the remaining fairness derivatives are charged to the current profit or loss.

For the hybrid instruments containing embedded derivatives, if there are not designated as financial assets or financial liabilities at fair value with the changes to the current profit or loss, there is no close relationship between the embedded derivatives and the principal contract in terms of economic characteristics and risks, with the same condition of embedded derivatives and the separate existing tools are in accordance with the definition of the derivatives, and then the embedded derivatives are split from the hybrid tools and processed as the separate derivative financial instruments. If it is not possible to measure the embedded derivative instruments separately at the time of acquisition or on the subsequent balance sheet date, and then the entire hybrid instrument is designated to financial assets or financial liability measured at fair value with change recorded in current profits and losses.

(8) Offset of financial assets and financial liabilities

When the company has the statutory right to offset the recognized financial assets and financial liabilities and it is currently able to implement such statutory rights, at the same time, the company plans to settle the net or realize simultaneously the financial assets and liquidate the financial liabilities, the

financial assets and the financial liabilities are shown in the balance sheet as the amount of offset by each other. In addition, financial assets and financial liabilities are separately presented in the balance sheet, which are not offset by each other.

**(9) Equity instruments**

Equity instruments refer to contracts that demonstrate the ownership of the company's remaining equity in the assets after deducting all liabilities. The company issues (including refinancing), repurchases, sells or cancels equity instruments as a change in equity. The company does not recognize the fair value changes of equity instruments. Transaction costs related to equity transactions are deducted from equity.

The company's various allocations to holders of equity instruments (excluding stock dividends) reduce shareholders' equity. The company does not recognize the changes in fair value of equity instruments.

**10. Receivables**

Receivables include accounts receivable, other receivables, etc.

**(1) Bad debt preparation confirmation standards**

The Company inspects the book value of receivables on the balance sheet date, and makes provision for impairment if there is objective evidence that receivables have impairment: ① the debtor has serious financial difficulties; ② the debtor breaches any of the contractual stipulations (for examples, failing to pay or delaying the payment of interests or the principal etc.); ③ the debtor will probably become bankrupt or carry out other financial reorganizations; ④ Other objective evidences showing the impairment of the financial assets.

**(2) Bad debt provision method**

① The confirmation standard and accrual method of bad debt provision for account receivables with single significant amount and single provision for bad debts

The company recognizes account receivable of RMB 10 millions and above as the account receivable with significant amount of single item.

The Company conducts the individual impairment tests on individual significant receivables, and the individual test financial assets without impairment are included in the financial assets portfolio with similar characteristics of credit risk to perform the impairment tests. The receivables that have been confirmed for impairment losses in individual tests are no longer included in the portfolio of accounts receivable with similar credit risk characteristics for impairment testing.

② The basis to determine the receivables of bad debt provision according to the credit risk portfolio and the method for bad debt provision

**A. The basis of determining the combination of credit risk characteristics**

The company classifies the financial assets based on the similarity and correlation of credit risk characteristics for receivables with single insignificant and significant amounts without impairment of individual tests. These credit risks reflect generally the ability of the debtor to repay all amounts due

according to the contractual terms of the assets, which are related to the measurement of the future cash flows of the assets inspected.

The basis to determine the different combinations:

Items	Determine the basis for the combination
Aging analysis combination	The receivables combination classified according to the aging credit risk characteristics.
Other combinations	
Combination of affiliate parties within the scope of consolidation	The receivables combination classified according to the relationship with the transaction object.
Government unit combination	The combination of receivables divided by credit risk characteristics based on the reputation of the transaction object.

**B. Bad debt preparation method based on credit risk feature combination**

When the impairment test is conducted in a combined manner, the amount of bad debts reserves is determined on the basis of the loss assessment existing in the portfolio of historical loss experience, current economic conditions and expected receivables according to the portfolio structure of accounts receivable and similar credit risk characteristics (ability of the debtor to repay arrears according to the terms of the contract).

Different types of accruals for provision of bad debts:

Items	Withdrawal method
Aging analysis combination	Aging analysis method
Other combinations	No temporary provision of bad debts

In the portfolio, the provision method of bad debt with the aging analysis method to calculate

Aging	Accounts receivable ratio (%)	Other receivables ratio (%)
Within 1 year (including 1 year, the same below)	-	-
1-2 years	10.00	10.00
2-3 years	30.00	30.00
over 3 years	50.00	50.00

⊙ Receivables of individual insignificant amounts with single provision for bad debts

The company conducts the separate impairment test for accounts receivable with individual insignificant amounts and the following characteristics. If there is objective evidence that they have been impaired, the difference between the present lower value of future cash flows and the book value is recognized for the impairment losses and provision for bad debts.

(3) Return of bad debts

If there is objective evidence that the value of the receivable has been recovered and it is objectively related to the matters occurred after the loss has been confirmed, the previous recognized impairment

loss is reversed and charged to the current profit or loss. However, the book value after the reversal does not exceed the assumed amortized cost of the receivables on the reversal date, no provision for impairment.

If the company transfers the receivables to the financial institution without recourse, the difference between the transaction amount after deducting the book value of the receivables that have been written off and the related tax expenses should be recorded in the current profit or loss.

## **11. Inventory**

### **(1) Classification of inventory**

Inventories include mainly the raw materials, inventory goods, low-value consumables, packaging, development costs, and engineering construction etc.

### **(2) Pricing method to obtain and issue inventory**

Inventories are valued at the actual cost when acquired, and inventory costs include purchase costs, processing costs, and other costs. In case of acquisition and delivery, the price is weighted according to the weighted average method.

### **(3) Confirmation of the net realizable value of inventories and withdrawal method for falling prices**

Net realizable value refers to the estimated sold price of inventories less the estimated costs to be incurred upon completion, estimated selling expenses and related taxes in daily activities. When determining the net realizable value of inventories, based on obtaining conclusive evidence, consider the purpose to hold the inventory and the influence of events after the balance sheet date.

On the balance sheet date, inventories are measured at the lower between the cost and net realizable value. When the net realizable value is lower than the cost, inventory depreciation reserve is withdrawn. The provision for inventory devaluation is usually based on the difference between the higher cost of a single inventory item and its net realizable value.

After accruing inventory depreciation reserve, if the influencing factors of the previous write-down of inventory value have been disappeared and the net realizable value of inventory exceeds its book value, and then it should be reversed from the provision for inventory devaluation accrued and the amount transferred back is included in the current profit or loss.

### **(4) The inventory system is a perpetual inventory system.**

### **(5) Amortization method for low-value consumables and packages**

Low-value consumables should be amortized at one-off amortization method when they are received; and the packages should be amortized at one-off amortization method when they are received.

## **12. Assets held for sale**

If the company recovers its book value mainly through sale (including non-monetary asset exchange with commercial substance, the same below) instead of continuing usage a non-current asset or disposal group, it should be classified as held for sale. The specific criteria are to meet the following conditions at the same time: a non-current asset or disposal group can be sold immediately under

current conditions based on the convention of selling such assets or disposal groups in similar transactions; the company has already made a resolution on the sale plan and the purchase promise; the expected sales would be completed within one year. Among them, the disposal group refers to a group of assets that are disposed of as a whole through sale or other means in a transaction, and the liabilities direct related to these assets transferred in the transaction. If the asset group or combination of asset groups to the disposal group has been acquired the goodwill in the business combination in accordance with the "Accounting Standards for Enterprises No. 8 - Asset Impairment," and then the disposal group should include the goodwill allocated to the disposal group.

When the company measures initially or re-measures the non-current assets and disposal groups held for sale on the balance sheet date, if its book value is higher than the fair value minus the net amount after the sale expenses, the book value should be reduced to the net amount of fair value less costs to sell, the amount to write-down is recognized as asset impairment loss, included in the current profit or loss, and make the provision for impairment of held-for-sale assets at the same time. For the disposal group, the recognized impairment loss of assets offset the book value of the goodwill in the disposal group at first, and then offset the measured book value of various non-current assets applicable to "Accounting Standards for Enterprises No.42 of the disposal group - non-current assets held for sale, disposal group and termination of business (hereinafter referred to as "held for sale"). If the fair value of the disposal group held for sale on the follow-up balance sheet day minus the net amount after the sale expense is increased, the amount of the previous write-down should be restored, which is classified for holding the sale and reversed within the amount of impairment loss of assets confirmed by the measurement of non-current assets as held for sale. The reversed amount should be recorded in the current profit or loss, and the book value of various non-current assets should be increased according to the proportion stipulated as the standard held for sale in addition to goodwill in the disposal group; the book value of the goodwill that has been written off, and the confirmed amount of impairment loss of assets of the non-current assets subject to the holding measurement criteria are not allowed to be reversed before classified as held for sale. .

Non-current assets held for sale or non-current assets in the disposal group are not subject to depreciation or amortization. The interest and other expenses of the liabilities in the disposal group held for sale continue to be confirmed.

When the non-current asset or disposal group no longer meets the classification criteria for the held-for-sale category, the company should no longer classify it as a held-for-sale category or remove the non-current assets from the disposal group held for sale. It is calculated as the lower of following two measures: (1) The book value before classified as held for sale is the amount adjusted according to the depreciation, amortization or impairment that should be confirmed if it is assumed not to be classified as held for sale; (2) Recoverable amount.

### **13. Long-term equity investment**

The long-term equity investment in this part refers to the long-term equity investment that the company has control, joint control or significant influence on the invested entity. The company's long-term equity investments that do not have control, joint control, or significant influence over the investee are accounted for as financial assets available-for-sale or financial assets measured at fair value with change recorded in current profits and losses. The accounting policies are detailed in Note IV 9 "Financial Instruments".

Joint control means that the company has common control over an arrangement in accordance with the relevant agreement, and the related activities of the arrangement must be agreed upon by the parties that share the right of control. Significant influence means that the company has the power to participate in decision-making on the financial and operating policies of the invested company, but it cannot control or control jointly the formulation of these policies together with other parties.

(1) Determination of investment costs

For the long-term equity investment acquired by the business combination under the same control, the share of the book value of the owner's equity of the merged party in the ultimate controller's consolidated financial statements at the merged date should be taken as the initial investment cost of the long-term equity investment. The difference between the initial investment cost of the long-term equity investment and the cash paid, the non-cash assets transferred, and the amount of the debt assumed should be adjusted for the capital reserve; if the capital reserve is insufficient to offset, the retained earnings should be adjusted. In the case of issuance of equity securities as the merging consideration, the share of the book value of the owner's equity of the merged party in the ultimate controller's consolidated financial statements at the merged date should be taken as the initial investment cost of the long-term equity investment; the difference between the total face value of the issued shares, the initial investment cost of the long-term equity investment and the total par value of the shares issued should be adjusted for the capital reserve; if the capital reserve is insufficient to offset, the retained earnings should be adjusted.

The equity of the merged party under the same control through multiple transactions step by step, if form a business combination under the same control eventually, should be treated as a "package deal" or not separately: if it belongs to a "package deal", each transaction should be accounted as the transaction that obtains the control. In the case of non "package deal", the share of the book value of the owner's equity of the merged party in the consolidated financial statements of the ultimate controller is taken as the initial investment cost of the long-term equity investment on the merged date, and the capital reserve should be adjusted as the difference between the initial investment cost of the long-term equity investment and the book value of the long-term equity investment before the merged and the book value of the new payment for the new shares on the merged date; if the capital reserve is insufficient to offset, the retained earnings should be adjusted. Any other comprehensive income

recognized by the equity investment as the equity method or financial assets available-for-sale held prior to the merged date should not be subject to the accounting for the time being.

For long-term equity investments acquired by business combinations under non common control, the initial cost of long-term equity investment is the merged cost on the purchase date. The merged costs include assets paid by the purchaser, liabilities incurred or assumed, and the fair value of equity securities issued.

The equity of the purchased party under the same control through multiple transactions step by step, if form a business combination under non common eventually, should be treated as a "package deal" or not separately: if it belongs to a "package deal", each transaction should be accounted as the transaction that obtains the control. If it does not belong to a "package deal," for the sum of the book value of the original held equity investment and the new investment cost, it is taken as the initial investment cost of the long-term equity investment calculated according to the cost method. Where the original held equity is accounted as the equity method, the related comprehensive income should not be accounted temporarily. Where the original equity investment is an available-for-sale financial asset, the difference between the fair value and the book value, and the accumulated fair value changes previous recognized in other comprehensive income are transferred to the current profit or loss.

Intermediary costs such as auditing, legal services, assessment and consulting, etc. incurred by the combining party or the purchaser for the business combination and the other management cost should be recorded in the current profit or loss when incurred.

Except the long-term equity investment formed by the business combination, the other equity investment is initially measured at the cost. Based on the different way that the long-term equity investment is obtained. The cost should be determined respectively, such as the actual cash paid by the company, the fair value of equity securities issued by the company, the value agreed in the investment contract or agreement, the fair value or original book value of the assets in the exchange transaction of non-monetary assets, and the fair value of the long-term equity investment. The costs, taxes, and other necessary expenses direct related to the acquisition of long-term equity investments are also included in the investment costs. The cost of long-term equity investment is the original held equity investment fair value determined in accordance with the "Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments" plus the sum of new investment costs, which can affect significantly the invested entity or impose joint control without single control due to new investment.

(2) Subsequent measurement and recognition of profit and loss

The long-term equity investment that has common control over the invested entity (except for constituting a common operator) or significant influence is accounted as the equity method. In addition, the company's financial statements use the cost method to account for long-term equity investments that can control the investee.

⊙ Long-term equity investment accounted as cost method

When using the cost method, the long-term equity investment is measured at the initial investment cost, and the cost of the long-term equity investment is adjusted by adding or withdrawing the investment. Except for the actual payment for the investment or the cash dividend or profit included in the consideration that has been announced but not yet issued, the current investment income should be recognized in accordance with the cash dividends or profits declared by the investee.

② Long-term equity investment accounted as equity method

When using the equity method, if the initial investment cost of long-term equity investment is greater than the fair value share of the identifiable net assets invested by investee, and the initial investment cost of the long-term equity investment is not adjusted; if the initial investment cost is less than the fair value share of the identifiable net assets invested by investee, the difference is included in the current profit or loss, and the cost of the long-term equity investment is adjusted at the same time.

When using the equity method, the investment income and other comprehensive income are recognized separately based on the net profit or loss realized by the invested entity and the share of other comprehensive income that should be shared or assumed, and the book value of the long-term equity investment is adjusted at the same time; The booked value of the long-term equity investment should be reduced correspondingly to the part of the distributed profit or cash dividend calculation declared by the investee; the book value of the long-term equity investment should be adjusted for other changes in the owner's equity of the invested entity except for the net profit or loss, other comprehensive income and profit distribution, which is included in capital reserve. When confirming the share of the net profits and losses of the investee, the net profits of the investee should be adjusted for confirmation based on the fair value of the identifiable assets of the investee etc. at the time of acquisition. If the investee adopts the accounting policy and the accounting period inconsistent with that of the company, the financial statements of the investee should be adjusted in accordance with the accounting policies and accounting periods of the company and the investment income and other comprehensive income should be also confirmed. For transactions between the company and its associated companies and joint ventures, if the assets invested or sold do not constitute a business, the unrealized profits and losses of internal transactions are calculated based on the proportion, the shares that are attributable to the company are offset. On this basis, confirm investment profit and loss. However, if the unrealized internal transaction losses incurred by the company and the invested entity belong to the impairment loss of the transferred assets, they should not be offset.

If the assets invested by the company to joint venture or associate constitutes a business, if the investor obtains a long-term equity investment without the right of control, the fair value of the investment is used as the initial investment cost of the new long-term equity investment. The difference between the initial investment cost and the book value of the investment business is fully accounted in the current profit or loss. If the assets invested by the company to joint venture or associate constitutes a business, the difference between the consideration obtained and the book value of the business is fully recorded in

the current profit or loss. If the assets purchased by the company from joint venture or associate constitutes a business, it should be accounted in accordance with the "Accounting Standards for Enterprises No. 20 - Mergers of Enterprises", confirm the full gains or losses associated with the transactions.

When the net losses incurred by the invested entity are confirmed, the book value of the long-term equity investment and other actual long-term equity of net investment to the invested entity could be reduced to zero. In addition, if the company has the obligation to bear additional losses to the invested entity, recognize the estimated liabilities according to the expected obligations, which is included in the current investment losses. For the net profit realized by the invested entity in the subsequent period, the Company should resume the share of unrecognized losses of its share of profits, and then recover the amount of its share of profits.

For the company's long-term equity investments in associates and joint ventures that have been held prior to the first implementation of the new accounting standards on January 1, 2015, if there is a debit difference of the equity investment related to the investment, the amount should be amortized on a straight-line basis of the original remaining period, which is included in the current profit or loss.

④ Acquisition of minority equity

When preparing the consolidated financial statements, because of the difference between the new long-term equity investment from the acquisition of minority equity and the share of net assets that should be continuously calculated by the subsidiary since the purchase date (or the merged date) based on the new shareholding ratio. Capital reserve should be adjusted, in case of capital reserve less than offset, adjust the retained earnings.

④ Disposal of long-term equity investment

In the consolidated financial statements, the parent company disposes of partially the long-term equity investment in the subsidiary without losing control, the difference between the disposal price and the disposal of the long-term equity investment to the subsidiary's net assets is included in the shareholders' equity; if the parent company disposes of partially long-term equity investment in a subsidiary and results in the loss of control over the subsidiary, it is recorded in accordance with the relevant accounting policies described in Notes IV, 5 (2) "Methods for preparation of consolidated financial statements".

The disposal of long-term equity investment under other circumstances, for the disposal of equity, the difference between the book value and the actual purchase price should be included in the current profits or losses.

For the long-term equity investment accounted as the equity method, if the remaining equity after disposal is still accounted as the equity method, the other comprehensive income original recorded in shareholders' equity should accounted in the proportion with the same basis that the invested entity disposes of directly the relevant assets or liabilities. The changes in the other owners' equity other than

net profit or loss, other comprehensive income, and profit distribution of the investee are transferred in the current profit or loss.

For the long-term equity investment accounted as the equity method, if the remaining equity after disposal is still accounted as the equity method, for the other comprehensive income recognized by the equity method or financial instrument and measurement criteria before the control of the investee is obtained, it should be accounted with the same basis that the invested entity disposes of directly the relevant assets or liabilities, which is transferred in the current profit or loss in the proportion. The changes in the other owners' equity with equity method other than net profit or loss, other comprehensive income, and profit distribution of the investee are transferred in the current profit or loss.

If the company disposes of part of the equity investment and loses control of the invested entity, when the individual financial statements are prepared, if the remaining equity after disposal can exert joint control or significant influence on the investee, it should be calculated according to the equity method, and the residual equity is regarded as being adjusted as equity method when it is obtained; if the remaining equity after disposal cannot exert joint control or significant influence on the invested entity, it should be accounted in accordance with the relevant provisions of the criteria for recognition and measurement of financial instruments. The difference between the fair value on the date of loss of control and the book value is included in the current profit or loss. Before the company obtains control over the investee, for the other comprehensive income recognized as equity method or financial instrument recognition and measurement standard, it is recorded with the basis that the investee disposes of directly the related assets and liabilities when it loses control over the investee. The changes in the other owners' equity as the equity method other than net profit or loss, other comprehensive income, and profit distribution of the investee are transferred in the current profit or loss when it loses control over the investee. Among them, if the remaining equity after disposal is accounted as the equity method, other comprehensive income and other owners' equity are transferred in proportion; if the residual equity after disposal is accounted as according to the criteria for recognition and measurement of financial instruments, other comprehensive income and all other rights & interests are fully transferred.

If the company disposes of part of the equity investment and loses the joint control or significant influence on the investee, the remaining equity after disposal should be calculated according to the criteria for confirmation and measurement of financial instruments, and the difference between the book value and the fair value on the date of loss of joint control or significant influence is included in the current profit or loss. For the other comprehensive income recognized in the original equity investment as the equity method, it is accounted with the same basis that the investee disposes of directly the related assets or liabilities when the equity method is terminated. The changes in the other owners' equity as the equity method other than net profit or loss, other comprehensive income, and profit distribution of the investee are transferred in the current profit or loss fully when the equity method is

terminated.

The company disposes of the equity investment in the subsidiary company through multiple transactions step by step until it loses control. If the above transaction belongs to a "package deal", the each transaction should be accounted to dispose of the equity investment in the subsidiary and lose control. Before the loss of control, for the difference between the book value of the disposal equity corresponding to the long-term equity investment and each disposal price, it is at first recognized as other comprehensive income, and then transferred to the current profit or loss at the time of loss of control.

#### **14. Investment real estate**

Investment real estate of the Company refers to real estate held to obtain rent or capital gain or both. Investment real estate is measured and sold separately. Including land use rights that have been leased, land use rights that are held and prepared for transfer after appreciation, buildings that have been leased, etc.

Investment real estate is initially measured at cost. Subsequent expenditures related to investment real estate should be included in the cost of investment real estate if the economic benefits associated with the asset are likely to flow in and its cost can be reliably measured. Other subsequent expenses are included in the current profit or loss when they occur.

Fair value mode is used by the Company to subsequently measure the investment real estate. The Company doesn't withdraw depreciation or amortize the investment real estate, and adjusts its book value on the basis of fair value of investment real estate on the balance sheet date, and includes the difference between fair value and original book value in the current profits and losses.

When determining fair value of investment real estate, refer to the prevailing price for same category or similar real estate on active market; where the prevailing price for same category or similar real estate is unavailable, refer to the latest transaction price for same category or similar real estate on active market, and considering such factors as transaction condition, transaction date, location, etc, so as to make reasonable estimate on fair value of the investment real estate; or determine the fair value based on expected future rental income and present value of relevant cash flow.

When the self-use real estate or inventory is converted to investment real estate, make valuation based on fair value on the day of conversion; if the fair value on the day of conversion is less than original book value, the difference is included in current profits and losses; if the fair value on the day of conversion is larger than original book value, the difference is recognized as other comprehensive income. When the investment real estate is converted to self-use real estate, the fair value on the day of conversion is taken as book value of self-use real estate, and the difference between fair value and original book value is included in current profits and losses. When the use of investment real estate is changed to self-use, the investment real estate should be converted into the fixed assets or intangible assets from the date of change. When the use of self-use real estate is changed to earn rent or capital

appreciation, the fixed assets or intangible assets should be converted into investment real estate from the date of change. During change, fair value on the transition date is used as changed entry value.

When the investment real estate is disposed of or permanently withdrawn from use and it is expected that no economic benefit can be obtained from its disposal, the recognition of the investment real estate should be terminated. The income from disposal of investment real estate sold, transferred, scrapped or damaged is deducted for its book value and related tax expenses and charged to the current profit or loss.

**15. Fixed assets**

(1) Fixed asset confirmation conditions

The term "fixed assets" refers to the tangible assets that are held for the sake of producing commodities, rendering labor service, renting or business management and their useful life is in excess of one fiscal year. No fixed asset may be recognized unless the economic benefits pertinent to the fixed asset are likely to flow into the company and the cost of the fixed asset can be measured reliably. Fixed assets are initially measured at cost and taken into account the impact of the estimated cost of disposal.

(2) Depreciation methods for various types of fixed assets

From the next month after the fixed assets reach the scheduled usable condition, the depreciation should be made within the service life as the life-average method. The use life, estimated net residual value and annual depreciation rate of various types of fixed assets are as follows:

Categories	Depreciation method	Depreciation age (years)	Residual rate (%)	Annual depreciation rate (%)
Housing and structures	Life-average method	20-50	3-5	1.90-4.85
Special equipment	Life-average method	5-10	3-5	9.50-19.40
Machinery equipment	Life-average method	5-10	3-5	9.50-19.40
Transportation equipment	Life-average method	5-12	3-5	7.92-19.40
Electronic & office equipment	Life-average method	3-10	3-5	9.50-32.33
Toll road assets, etc.	Traffic flow method			

The expected net residual value is the amount that the company has currently reduced the estimated disposal expenses from the disposal of the asset, the estimated use life of the fixed asset is finished at the end of its useful life.

(3) Impairment test method of fixed assets and withdrawal method of impairment provision

For the details of impairment test method and withdrawal method of impairment provision of fixed assets, please refer to Note IV.20 "Long-term Asset Impairment".

(4) Identification basis and pricing method of financing lease fixed assets

The finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of an asset. Ownership may or may not eventually be transferred. The fixed assets leased

into with financial leasing mode shall make the depreciation of the leased assets in line with the policy of self-owned fixed assets. If it is reasonably certain that the ownership of the leased asset should be obtained when the lease expires, depreciation should be made within the useful life of the leased asset; if it cannot reasonably be determined that the leased asset can be acquired after the expiration of the lease term, the shorter period of the lease term and the useful life of the leased asset is used for the depreciation.

**(5) Other instructions**

For the subsequent expenditures related to fixed assets, if the economic benefits associated with the fixed assets are likely to flow in and their costs can be reliably measured, they are included in the cost of fixed assets and the recognition of the book value of the replaced part is terminated. The other subsequent expenses are included in the current profit or loss when incurred.

The fixed assets are derecognized when the fixed assets are disposed or if no economic benefits are expected to generate from the use or disposal. The difference between the disposal income of fixed assets sold, transferred, scrapped or damaged after deducting their book value and related tax fees is included in the current profit or loss.

The company reviews the use life, estimated net residual value, and depreciation method of fixed assets at least at the end of the year, and if any change, it is recorded as a change in accounting estimates.

**16. Construction in progress**

Costs of construction in progress are determined on the basis of actual project expenditures, including project expenditures incurred during construction, capitalized borrowing costs and other related expenses before the project reaches its expected usable condition. Construction in progress is carried over to the fixed assets after it reaches its intended usable condition.

For details of the impairment test method and impairment provision method of construction in progress, please refer to Note IV.20 "Long-term Asset Impairment".

**17. Borrowing costs**

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. The capitalization of borrowing costs that can be directly attributable to the acquisition, construction, or production of assets that meet the conditions for capitalization is started when the capital expenditure and borrowing costs have already been incurred, and the necessary acquisition, construction, or production activities in order to make the assets ready for their intended use or sale have been started. The capitalization is stopped when the constructed or produced assets that meet the conditions for capitalization reach a state of intended use or sale. Other borrowing costs shall be recognized as expenses at the present period.

The actual interest expenses of the special borrowings incurred in the current period should be

capitalized after subtracting the interest income earned by the unutilized borrowing funds from bank or the investment income obtained from the temporary investment; the general borrowings should be determined for the amount of capitalization as following, the weighted average of asset expenditures that the accumulative assets expenditure exceeds the special borrowings is multiplied by the capitalization rate of general borrowings. The capitalization rate is determined on the basis of weighted average interest rate of the general borrowings.

During the capitalization period, the foreign exchange differences on foreign currency specific borrowings should be capitalized; exchange differences on foreign currency general borrowings should be recorded in the current profits and losses.

Assets eligible for capitalization refer to the fixed assets that require a long period of time for acquisition, construction, or production for use or sale, investment real estate, inventory, etc.

If the assets eligible for capitalization are abnormally interrupted in the process of acquisition, construction or production and the interruption lasts for more than 3 months, the capitalization of the borrowing costs should be suspended until the acquisition, construction or production of the assets resumes.

## **18. Intangible assets**

### **(1) Intangible assets**

Intangible assets are identifiable non-monetary assets that are owned or controlled by the company, without physical shape.

Intangible assets are initially measured at cost. Expenditures related to intangible assets are included in the cost of intangible assets if the relevant economic benefits are likely to flow into the company and their costs can be reliably measured. Expenditure for other items is included in the current profit or loss when incurred.

Land use rights acquired are usually accounted as intangible assets. The plant and other buildings of self-development and construction, the related land use rights expenditures and building construction costs are accounted as intangible assets and fixed assets, respectively. For the purchased houses and buildings, the relevant price should be allocated between the land use rights and the buildings. If it is difficult to allocate them reasonably, all of them should be treated as fixed assets.

Intangible assets with limited useful lives are amortized by the straight line staging average method over their expected useful lives from the moment they are available for use, less their estimated net residual value and the accumulative amount of accrued impairment losses. Intangible assets with indefinite useful lives are not amortized.

At the end of the period, the useful life and amortization method of intangible assets with limited useful life are reviewed, if any change occurs, they are treated as changes in accounting estimates. In addition, the service life of an intangible asset with an indefinite useful life is reviewed. If there is evidence that the period during which the intangible asset brings economic benefits to the enterprise is

predictable, the service life of the intangible asset is estimated and the intangible asset with a finite service life is amortized as the amortization policy.

(2) Research & development expenditure

The expenditures of the company's internal research and development projects are divided into research phase expenditures and development phase expenditures.

Expenditure for the research phase is included in the current profit or loss when incurred.

Expenditure in the development phase that satisfies the following conditions at the same time is recognized as intangible assets. Expenditure at the development stage that does not satisfy the following conditions is included in the current profit and loss:

- ① It is feasible technically to finish intangible assets for use or sale;
- ② It is intended to finish and use or sell the intangible assets;
- ③ The ways in which intangible assets generate economic benefit includes the way that it can prove the existence of the market of the products from the intangible assets or it can prove the existence of the market of intangible assets itself. If intangible assets are used internally and it can prove their usefulness;
- ④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- ⑤ The development expenditures of the intangible assets can be reliably measured.

If it is not possible to distinguish between research phase expenditures and development phase expenditures, all R&D expenditures incurred should be charged to the current profit or loss.

(3) Impairment testing method of intangible assets and withdrawal method of impairment provision

For details of the impairment test method and withdrawal method of impairment provision of intangible assets, please refer to Note IV.20 "Long-term asset impairment".

**19. Long-term deferred expenses**

Long-term expenses to be apportioned are various expenses that have already occurred, but they should be burdened by the reporting period and subsequent periods with a time limit of more than one year. Long-term expenses to be apportioned are amortized on a straight-line basis over the expected benefit period.

**20. Long-term asset impairment**

For non-current non-financial assets such as fixed assets, construction in progress, intangible assets with limited service life, investment real estate measured in cost mode, and long-term equity investments in subsidiaries, associated enterprises, joint ventures, etc., the company should determine whether there are signs of impairment on the balance sheet day. If there is any sign of impairment, its recoverable amount is estimated and the impairment test is conducted. For goodwill, intangible assets with an indefinite useful life, and intangible assets that have not yet reached their usable status are tested for impairment annually, irrespective of whether there is any sign of impairment.

If the impairment test results indicate that the recoverable amount of the asset is less than its book value, the difference should be withdrawn and accounted as impairment loss. The recoverable amount is the higher of the fair value of the assets minus the disposal expenses and the present value of the estimated future cash flow of the assets. The fair value of the asset is determined on the basis of the price of the sales agreement in an arm's length transaction. If there is no sales agreement but there is an active market for assets, the fair value is determined on the basis of the buyer's bid for the asset; if there is no sales agreement and active asset market, the most available good information is based to estimate the fair value of asset. Disposal expenses include legal fees related to the disposition of assets, related taxes, handling expenses, and direct expenses incurred in bringing assets into a saleable state. The present value of the expected future cash flow of the assets is determined by the amount of discounted cash flow selected in accordance with the estimated future cash flow generated during the continuous use and final disposal of the assets. The provision for impairment of assets is calculated and confirmed on the basis of individual assets. If it is difficult to estimate the recoverable amount of a single asset, the asset group to which the asset belongs should be used to determine the recoverable amount of the asset group. Asset groups are the smallest portfolio of assets that can generate cash inflows independently.

For the goodwill separate listed in the financial statements, the book value of goodwill is amortized to the asset group or combination of asset groups that are expected to benefit from the synergies of the business combination when assessing impairment. If the test result shows that the recoverable amount of an asset group or a combination of asset groups which includes the goodwill that have been apportioned to is lower than its book value, it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the book value of the goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the book value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Once any loss of the above asset impairment is recognized, the value recoverable shall not be switched back in the future accounting periods.

#### **21. Employee Benefits**

Staff remuneration of the company mainly includes short-term staff remuneration, post-employment welfare, dismissal welfare and other long-term staff welfares. Of which:

Short-term remuneration mainly includes wage, bonus, allowance and subsidy, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing reserve fund, labor union fund and staff education fund, non-monetary welfare, etc. The company recognizes actual short-term staff remuneration incurred during accounting period when the employee provides service for the company as liabilities, and charges to current profits and losses or related asset costs. Of which non-monetary welfare is measured at fair value.

Post-employment welfare mainly includes basic pension insurance, unemployment insurance and annuity, etc. Post-employment welfare plan includes defined contribution plan and defined benefit plan. For defined contribution plan, the corresponding payable amount shall be included in relevant asset cost or current profits and losses when incurred.

For defined benefit plan of the company, the welfare obligation generated from defined benefit plan shall be attributed to the period when the employee provides service as per the formula determined by the expected cumulative welfare unit method, and charged to current profits and losses or related asset costs. The company shall recognize the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a defined benefit plan net liability or net asset. The company shall measure the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling.

The company shall discount all defined benefit plan render service, including the obligation which is expected to pay in twelve months after the end of the annual report year in which an employee provides service. The discount rate used shall be determined by reference to market yields at the balance sheet date on government bonds or on high quality corporate bonds in an active market, of which the term and currency are consistent with the deadline and currency of the defined benefit obligation.

The service cost and net interest on the net liability or net assets generated by the defined benefit plan shall be recognized to the current profits and losses or included in the cost of a relevant asset. Changes as a result of re-measurement of the net liability or net assets of the defined benefit plan shall be recognized in other comprehensive income, and cannot switched back to profit or loss in the following accounting period.

When the defined benefit plan is settled, the settlement gains or losses shall be confirmed according to the difference between the current value of the defined benefit plan obligation and the settlement price determined on the settlement date.

The staff remuneration liabilities arising from dismissal welfare is recognized as per the earlier date between the termination of employee's labor relationship prior to expiry of employee labor contract or proposing compensation suggestion to encourage the employee's voluntary acceptance of dismissal, when the company fails to unilaterally withdraw the dismissal welfare provided for termination of labor relationship plan or dismissal suggestion, and the company's recognition of the costs related to reorganization of dismissal welfare payment, and charged to current profits and losses. Nevertheless, if the dismissal welfare is expected not to be fully paid within twelve months after end of the annual reporting period, it shall be handled as per other long-term staff remuneration.

Internal retirement plan of employee can be handled by the same principle as the above dismissal welfare. The company will include the internally retired staff salary to be paid from the date of staff ceasing providing service to the date of normal retirement and the paid social insurance premium, etc into the current profits and losses (dismissal welfare), while meeting the criteria of recognizing estimated

liabilities.

For other long-term staff welfare offered by the company to the employee, in case of compliance with the defined contribution plan, it shall be accounted for as per the defined contribution plan, or otherwise accounted for as per the defined benefit plan.

## **22. Estimated liabilities**

When the obligation related to contingent events simultaneously meet the following conditions, it is recognized as estimated liabilities: (1) such obligation is the current obligation assumed by the company; (2) performance of such obligation may result in outflow of economic benefits; (3) the amount of such obligation can be measured reliably.

The estimated liabilities are measured according to the best estimate of expenditures required for performing relevant current obligations, considering such factors as relevant risks of contingent event, uncertainties and currency time value, etc, on the balance sheet date.

If all or part of expenditures required for liquidation of estimated liabilities are expected to be compensated by the third party, when the compensation amount is basically determined to be receivable, it is recognized separately as asset, and the recognized compensation amount does not exceed book value of the estimated liabilities.

### **(1) Loss contract**

Loss contract refers to the contract of costs inevitably exceeding estimated economic benefits when performing contractual obligations. If the contract to be executed becomes a loss contract, and the obligations arising from such loss contract meet aforesaid conditions for recognizing estimated liabilities, the part of estimated losses of contract exceeding recognized impairment losses of underlying assets is recognized as estimated liabilities.

### **(2) Reorganization obligations**

If reorganization plan has been formally and externally announced in details, when meeting the aforesaid criteria of recognizing estimated liabilities, the amount of estimated liabilities is determined as per the direct expenditure related to reorganization.

## **23. Preferred Stock, Perpetual bond and other financial instruments**

### **(1) Distinction between perpetual bond and preferred stock**

The financial instruments issued by the company, such as perpetual bond and preferred stock that meet the following conditions are regarded as equity instruments:

① Such financial instruments do not include contractual obligations to deliver cash or other financial assets to the other party or exchange financial assets or financial liabilities with other parties under potentially adverse conditions;

② If such financial instruments must or may be settled by using the company's own equity instruments in the future, and if such financial instruments are underivative instruments, they exclude the contractual obligations to deliver variable number of own equity instruments for settlement; if they are

derivative instruments, the company can only settle such financial instruments by exchanging fixed amount of cash or other financial assets with fixed number of own equity instruments.

Except for the financial instruments classified as equity instruments under the above conditions, other financial instruments issued by the company shall be classified as financial liabilities.

If the financial instrument issued by the company is compound financial instrument, it shall be recognized as a liability as per the fair value of liability component, and the amount after the actually received amount deducting the fair value of liability component shall be recognized as "other equity instrument". The transaction costs incurred for issuing compound financial instrument are apportioned between liability component and equity component as per their respective proportion to the total issuance price.

(2) Accounting method for perpetual bond and preferred stock

For the financial instruments of perpetual bond, preferred stock, etc classified as financial liabilities, their relevant interests, stock bonuses (or dividends), gains or losses, as well as gains or losses arising from redeeming or refinancing, except for the borrowing cost that meet capitalization conditions (see Note IV 17 "Borrowing cost") are charged to the current profits and losses.

For the financial instruments of perpetual bond, preferred stock, etc classified as equity instruments, during their issuance (including refinancing), repurchase, sale or cancellation, the company handles as equity changes, and related transaction costs are also deducted from equity. The company's distribution to holders of equity instruments is regarded as profit distribution.

The company does not recognize the fair value changes of equity instruments.

## **24. Incomings**

(1) Product sales revenue

When major risks and rewards of the commodity ownership has been transferred to the buyer, without retaining the continuous management right normally associated with the ownership or effective control of the sold commodity, the amount of income can be reliably measured, relevant economic benefits are likely to flow into the company, and relevant costs that have incurred or will incur can be reliably measured, the commodity sales income is recognized as achieved.

(2) Labor income provision

In case the result of provided labor transaction can be reliably estimated, the provided labor income is recognized as per the work completion percentage method on the balance sheet date. The progress of labor transaction completion is determined by the proportion of completed work measurement/provided labor to the total labor service that shall be provided.

That supplied labor service transaction results can be reliably estimated means that followings can be satisfied at the same time: ① income amount can be reliably measured; ② the economic benefits pertinent to the contract will flow into the enterprise; ③ transaction completion degree can be reliably determined; ④ occurred costs and costs to occur during transaction can be reliably measured.

If the result of provided labor transaction cannot be reliably estimated, the provided labor income shall be recognized according to the amount of labor cost that has incurred and is expected to be compensated, and the incurred labor cost is deemed as current expense. If the incurred labor cost is expected not to be compensated, the income is not recognized.

When the contract or agreement signed between the company and other companies includes commodity sales or labor provision, if the part of commodity sales and the part of labor provision can be distinguished and measured separately, the part of commodity sales and the part of labor provision shall be handled separately; if the part of commodity sales and the part of labor provision cannot be distinguished, or they can be distinguished but not measured separately, such contract shall be wholly handled as commodity sales.

### (3) Construction contract income

In case the result of construction contract can be reliably estimated, contract income and contract expense are recognized as per the work completion percentage method on the balance sheet date. The progress of contract completion is determined by the proportion of cumulative contract cost actually incurred to the estimated total contract cost.

That results of construction contract can be reliably estimated means that followings can be satisfied at the same time: ① the total contract revenue can be measured in a reliable way; ② the economic benefits pertinent to the contract will flow into the enterprise; ③ the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way; ④ both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

If the result of construction contract cannot be reliably estimated, but the contract cost can be recovered, the contract income is recognized as per the actual contract cost that can be recovered, and the contract cost is recognized as contract expense in the period when it is incurred; if the contract cost cannot be recovered, it is immediately recognized as contract expense when it is incurred, and contract income is not recognized. If there is no uncertain factor to cause the result of construction contract not reliably estimated, relevant income and expense related to the construction contract shall be determined according to the work completion percentage method.

If estimated total contract cost exceeds total contract income, the estimated loss is recognized as current expense.

The cumulative costs incurred for construction contract and the cumulative gross profits (losses) recognized are shown in the balance sheet as net amount after offsetting the settled amount. The part of the sum of cumulative costs incurred for construction contract and cumulative gross profits (losses) recognized exceeding the settled amount is shown as inventory; the part of settled amount exceeding the sum of cumulative costs incurred and cumulative gross profits (losses) recognized is shown as advance receipts.

### (4) Use fee income

Income is recognized on an accrual basis, according to relevant contract or agreement.

(5) Interest income

It is determined based on the time for other's use of the company monetary assets and actual interest rate.

**25. Government subsidies**

Government grants refer to monetary assets and non-monetary assets obtained by the company free from the government, excluding the capital invested by the government as investor and entitled to corresponding owner's equity. Government grants are divided into asset-related government grants and revenue-related government grants. The company defines the government grants obtained for construction or forming long-term assets by other means as asset-related government grants; the other government grants are defined as revenue-related government grants. If government document has not expressly specified the object of grants, the grants shall be divided into revenue-related government grants and asset-related government grants in the following ways: (1) in case the government document has specified the specific target of grants, divide according to the relative ratio between expenditure amount of formed asset in the budget of such specific target and expenditure amount included in the expense, and such division ratio shall be reviewed on each balance sheet date and modified when necessary; (2) if the government document only has general statement on the purpose of usage, rather than specify the specific target, it is deemed as revenue-related government grants.

If government grants are monetary assets, measure according to received or receivable amount. If government grants are non-monetary assets, measure at fair value; if fair value cannot be obtained reliably, measure at nominal amount. Government grants measured at nominal amount are directly charged to current profits and losses.

The company usually recognizes and measures government grants as per the paid-in amount when actually received. Nevertheless, in case of conclusive evidence at the end of period to show compliance with relevant criteria of fiscal support policy provisions and expected receipt of fiscal support funds, measure in accordance with the amount receivable. Government grants measured in accordance with the amount receivable shall simultaneously satisfy the following criteria: (1) the amount of receivable grants has been confirmed by document of government authority, or may be reasonably measured pursuant to relevant provisions of officially promulgated fiscal fund administration measures, and the amount is expected to have no significant uncertainty; (2) it is subject to the administrative measures for fiscal support project and fiscal fund officially promulgated by local fiscal authority and actively disclosed pursuant to the Government Information Disclosure Regulations, and such administrative measures should be generalized preferential (any enterprise that meets the specified criteria can apply), rather than formulated for a specific enterprise; (3) the timelimit of payment has been clearly promised in relevant subsidy approval document, and the payment of such amount is guaranteed by corresponding

fiscal budget, so as to reasonably ensure receipt within the prescribed time limit; (4) other relevant criteria to meet according to specific circumstances of the company and such subsidy matter.

The asset-related government grants are recognized as deferred income, and charged to current profits and losses by phases within the service life of relevant assets in a reasonable and systematic manner, or offset book value of relevant assets. For revenue-related government grants, if used to compensate relevant costs or losses in later period, they are recognized as deferred income, and charged to current profits and losses during the period of recognizing relevant costs or losses or offset the relevant costs; if used to compensate relevant costs or losses incurred, they are directly charged to current profits and losses or offset the relevant costs.

The government grants that include both asset-related part and income-related part shall be accounted for respectively by distinguishing the different parts; in case of difficult to distinguish, they shall be classified as revenue-related government grants as a whole.

The government grants associated with the company's daily activities shall be charged to other revenue or offset relevant costs, according to the nature of economic business; the government grants that are unassociated with daily activities are charged to non-operating income and expenditure.

When the recognized government grants need to be returned, if there is relevant deferred income balance, offset against book balance of relevant deferred income, and the excessive part shall be charged to current profits and losses or adjust book value of asset (for the asset-related government grants that offset book value of relevant asset and are related to asset when they are initially recognized); in other circumstances, they are directly charged to the current profits and losses.

## **26. Deferred income tax assets/deferred income tax liabilities**

### **(1) Current income tax**

On the balance sheet date, the current income tax liabilities (or assets) formed in current and prior period are measured at the expected amount of income tax payable (or refundable) calculated in accordance with the tax law. The amount of taxable income based on which the current income tax expense is calculated is drawn after corresponding adjustment of this year's pre-tax accounting profit made pursuant to relevant tax law.

### **(2) Deferred income tax assets/deferred income tax liabilities**

For the gap between book value of some assets and liabilities and their tax basis, as well as the temporary difference arising from the gap between book value of the items which are not recognized as assets and liabilities but whose taxable basis can be determined according to the tax law, the balance sheet liability method is used to recognize deferred income tax assets and deferred income tax liabilities.

For the taxable temporary difference related to initial recognition of goodwill and initial recognition of assets or liabilities arising from the trade, instead of enterprise merger, unaffacting accounting profit and taxable income (or deductible loss) when incurred, relevant deferred income tax liabilities are not recognized. In addition, for the taxable temporary difference related to investment of subsidiaries,

associated enterprises and joint ventures, if the company is able to control the time of temporary difference return, and such temporary difference is unlikely to reverse in the foreseeable future, relevant deferred income tax liabilities are not recognized as well. Except for the above exceptions, the company recognizes deferred income tax liabilities arising from all other taxable temporary differences.

For the deductible temporary difference related to initial recognition of assets or liabilities arising from the trade, instead of enterprise merger, unaffacting accounting profit and taxable income (or deductible loss) when incurred, relevant deferred income tax assets are not recognized. In addition, for the deductible temporary difference related to investment of subsidiaries, associated enterprises and joint ventures, if the temporary difference is unlikely to reverse in the foreseeable future, or the taxable income is unlikely to acquire to offset the deductible temporary difference in the future, relevant deferred income tax assets are not recognized. Except for the above exceptions, the company recognizes deferred income tax assets arising from other deductible temporary differences, limited to the taxable income that is likely to obtain to offset the deductible temporary difference.

For the deductible losses and tax credits that can be carried forward in subsequent years, relevant deferred income tax assets are recognized, limited to the future taxable income that is likely to obtain to offset the deductible losses and tax credits.

On the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured as per the applicable tax rate during the period of expected recovery for relevant assets or liquidation of relevant liabilities, according to the tax law.

On the balance sheet date, the book value of deferred income tax assets is reviewed; if it is likely not to obtain sufficient taxable income to offset the benefits of deferred income tax assets in the future, the book value of deferred income tax assets shall be written off. If it is likely to obtain sufficient taxable income, the write-off amount may be reversed.

(3) 40 Income tax expenses

Income tax expenses include current income tax and deferred income tax.

Except that the current income tax and defered income tax recognized as other comprehensive revenue or related to the transaction and matter directly included in shareholder's equity are charged to other comprehensive revenue or shareholder's equity, as well as the deferred income tax arising from enterprise merger to adjust book value of goodwill, other current income tax and defered income tax expenses or revenues are charged to current profits and losses.

(4) Income tax offsetting

When having legitimate right of net settlement, and intending to execute net settlement or concurrently obtaining assets and settling liabilities, the company's current income tax assets and current income tax liabilities shall be reported at the net amount after offsetting.

When having legitimate right of net settlement for current income tax assets and current income tax liabilities, and the deferred income tax assets and deferred income tax liabilities are related to the

income tax levied on the same taxpayer by the same tax collection department or related to different taxpayers, but in every future period of reversal for the important deferred income tax assets and liabilities, the involved taxpayer intends to execute net settlement of current income tax assets and liabilities or simultaneously obtains assets and settles liabilities, the company's deferred income tax assets and deferred income tax liabilities are reported at the net amount after offsetting.

## **27. Leasing**

The finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of an asset. Ownership may or may not eventually be transferred. The other lease in addition to financing lease is operating lease.

### **(1) The company records the operating lease business as a lessee**

The rental expenses of operating lease shall be charged to relevant asset costs or current profits and losses as per the straight line method in each period during lease term. Initial direct expenses are charged to current profits and losses. Contingent rental shall be charged to current profits and losses in the period when they actually arise.

### **(2) The company records the operating lease business as a lessor**

The rental revenues of operating lease shall be recognized as current profits and losses as per the straight line method in each period during lease term. The initial direct expenses with bigger amount shall be capitalized when incurred, and charged to current profits and losses by phase on the same basis as recognizing rental revenue in the whole lease period; other initial direct expenses with smaller amount shall be charged to current profits and losses when incurred. Contingent rental shall be charged to current profits and losses in the period when they actually arise.

### **(3) The company records the financing lease business as a lessee**

On the lease start date, the lower between fair value of leased asset on the lease start date and current value of minimum lease payment is deemed as recorded value of leased asset, the minimum lease payment is deemed as recorded value of long-term payables, and the difference is deemed as unrecognized financing expense. In addition, the initial direct expenses incurred during lease negotiation and signing of lease contract, and attributable to the lease project are also included in the value of leased asset. The balances of minimum lease payment after deducting unrecognized financing expense are listed as long-term liabilities and long-term liabilities due within one year respectively.

Unrecognized financing expenses are calculated by the actual interest rate method during the lease period to recognize current financing expenses. Contingent rental shall be charged to current profits and losses in the period when they actually arise.

### **(4) The company records the financing lease business as a lessor**

On the lease start date, the sum of minimum lease receipt amount on the lease start date and initial direct expense is deemed as recorded value of financing lease receivables, and the unguaranteed residual value is recorded simultaneously; the difference between the minimum lease receipt amount,

initial direct expense and unguaranteed residual value sum and the present value sum is recognized as unrealized financing revenues. The balances of financial lease receivables after deducting unrealized financing revenues are listed as long-term claims and long-term claims due within one year respectively.

Unrealized financing revenues are calculated by the actual interest rate method during the lease period to recognize current financing incomes. Contingent rental shall be charged to current profits and losses in the period when they actually arise.

**28. Changes in significant accounting policies and accounting estimates**

(1) Changes in accounting policies

① According to Notice on Revising the Format of General Enterprise Financial Statements (Cai Kuai [2017] No.30) of Ministry of Finance, the item of "Gains from disposal of assets" is added to the profit statement, and asset disposal profit and loss originally presented in the "non-operating income" and "non-operating expenditure" was adjusted to "Gains from disposal of assets". In 2016, items presented and included in the financial statements were adjusted as follows:

Unit: Yuan    Currency: RMB

Items and amounts of original presented statement		Items and amounts of new presented statement	
Non-operating expenses	3,317,258.53	Proceed from disposal of asset	-1,726,673.69
		Non-operating expenses	1,590,584.84

② According to Accounting Standards for Enterprises No.16 - Government Grants revised by Ministry of Finance, from June 12, 2017, government grants relevant to daily activities of the enterprise should be included in other gains or used to write-down relevant costs according to the essence of business transaction; government grants irrelevant to daily activities of the enterprise should be included in non-operating income and expenditure. Influence on items presented in 2017 financial statements is as follows:

Unit: Yuan    Currency: RMB

Name of affected report item	2017 annual impact amount
Other revenues	246,628,373.84
Non-operating income	-246,628,373.84

③ According to Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 2018 (Cai Kuai [2018] No.15) issued by Ministry of Finance in June, 2018, and with approval of the board of directors, retroactive adjustment method is used for items in the statement involved by changes of the accounting policy; in 2017, items listed in the financial statements were adjusted as follows:

Unit: Yuan    Currency: RMB

Items and amounts of original presented statement		Items and amounts of new presented statement	
Bills receivable	8,034,646.73	Notes receivable and accounts	2,801,136,034.37

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

Accounts receivable	2,793,101,387.64	receivable	
Construction in progress	4,786,539,590.630	Construction in progress	4,786,559,590.63
Engineering materials	20,000.000		
Bills payable	104,433,714.97	Notes payable and accounts payable	1,480,167,564.04
Accounts payable	1,375,733,849.00		
Interests payable	2,838,134.440	Other payables	2,847,700,519.90
Other payables	2,844,862,385.460		
Long-term payables	580,663,615.730	Long-term payables	628,027,371.19
Special accounts payable	47,363,755.460		

(2) Changes in accounting estimates

There is no matter of changes in accounting estimates during the reporting period.

**29. Significant accounting judgments and estimates**

In the process of applying accounting policies, due to internal uncertainties of operating activities, the company needs to make judgments, estimates and assumptions on the book value of report items that cannot be accurately measured. These judgments, estimates and assumptions are made based on past experience of the company executives, and considering other relevant factors. These judgments, estimates and assumptions affect the reporting amount of incomes, expenses, assets and liabilities, as well as disclosure of contingent liabilities on the balance sheet date. Nevertheless, the actual results caused by uncertainties of these estimates may be different from current estimates of the company executives, and further cause significant adjustment on the book value of affected assets or liabilities in the future.

The company conducts periodic review on the foregoing judgments, estimates and assumptions on the basis of continuous operation; if changes in accounting estimates only affect the current period of changes, the affected amount shall be recognized in the current period of changes; if it affects both current period of changes and future period, the affected amount shall be recognized in the current period of changes and future period.

**V. Taxes**

**1. Main tax categories and tax rates**

Categories of taxes	Taxation basis	Tax rate
Value-added tax	Output tax can be deducted from input tax	6%、16%、17%
Urban maintenance and construction tax	Turnover tax payable	7%
Education surcharge	Turnover tax payable	5%
Enterprise income tax	Income tax payable	25%

**2. Tax benefit and approval document**

The Group has no tax benefit and approval document.

**VI. Notes on consolidated financial statement items**

The following items (including notes on major items of corporate financial statement), unless otherwise specified, the beginning of year refers to Monday, January 1, 2018, the end of period refers to Monday, December 31, 2018, the current period refers to 2018, and the last period refers to 2017.

**1. Monetary fund**

(1) Monetary fund balance

Items	Ending balance	Year-beginning balance
Cash on hand	1,598,200.79	1,224,779.08
Deposit in bank	5,487,767,907.92	6,015,622,819.10
Other monetary funds	800,000.00	45,433,714.97
Total	5,490,166,108.71	6,062,281,313.15

(2) Conditions of restricted closing usage of monetary fund

Items	Ending balance	Year-beginning balance
Deposits of bank's acceptance bill	800,000.00	45,433,714.97
Total	800,000.00	45,433,714.97

**2. Notes receivable and accounts receivable**

Items	Ending balance	Year-beginning balance
Bills receivable	10,963,853.41	8,034,646.73
Accounts receivable	3,540,120,676.81	2,793,101,387.64
Total	3,551,084,530.22	2,801,136,034.37

(1) Bills receivable

① Classification of bill receivable

Items	Ending balance	Year-beginning balance
Bank acceptance	10,963,853.41	8,034,646.73
Trade acceptance		
Total	10,963,853.41	8,034,646.73

No pledged bill receivable at the end of period.

Notes receivables not due on the balance sheet date and endorsed or discounted at the end of term are 2,125,038.06 Yuan.

No bill transferred to receivables due to the drawer's non-performance of contract at the end of period.

(2) Accounts receivable

① Disclosure of receivable classification

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Categories	Ending balance				
	Book balance		Bad-debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Account receivable with significant amount of single item and separate allowance for bad debts					
Account receivable with allowance for bad debts according to combination of credit risk characteristics	3,586,412,657.45	100.00	46,291,980.64	1.29	3,540,120,676.81
Of which: aging analysis portfolio	1,913,987,081.15	53.37	46,291,980.64	2.42	1,867,695,100.51
Other combinations	1,672,425,576.30	46.63			1,672,425,576.30
Account receivable with insignificant amount of single item but separate allowance for bad debts					
Total	3,586,412,657.45	100.00	46,291,980.64	1.29	3,540,120,676.81

(Continued)

Categories	Year-beginning balance				
	Book balance		Bad-debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Account receivable with significant amount of single item and separate allowance for bad debts					
Account receivable with allowance for bad debts according to combination of credit risk characteristics	2,847,016,465.89	100.00	53,915,078.25	1.89	2,793,101,387.64

Categories	Year-beginning balance				
	Book balance		Bad-debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Of which: aging analysis portfolio	1,366,120,494.55	47.98	53,915,078.25	3.95	1,312,205,416.30
Other combinations	1,480,895,971.34	52.02			1,480,895,971.34
Account receivable with insignificant amount of single item but separate allowance for bad debts					
Total	2,847,016,465.89	100.00	53,915,078.25	1.89	2,793,101,387.64

In the portfolio, receivables with allowance for bad debts according to aging analysis method

Aging	Ending balance		
	Accounts receivable	Bad-debt provision	Proportion for withdrawing(%)
Within 1 year	1,550,485,839.86	-	-
1 to 2 years	317,556,842.58	31,755,684.27	10.00
2-3 years	42,179,514.93	12,653,854.48	30.00
over 3 years	3,764,883.78	1,882,441.89	50.00
Total	1,913,987,081.15	46,291,980.64	

(Continued)

Aging	Year-beginning balance		
	Accounts receivable	Bad-debt provision	Proportion for withdrawing(%)
Within 1 year	1,096,800,009.77	-	-
1 to 2 years	182,155,419.50	18,215,541.95	10.00
2-3 years	39,414,981.70	11,824,494.51	30.00
over 3 years	47,750,083.58	23,875,041.79	50.00
Total	1,366,120,494.55	53,915,078.25	

⊙ Top 5 closing balance of receivables by parties in arrears

Name of debtors	Closing balance of receivables	Proportion to total closing balance of receivables (%)	Closing balance of allowance for bad debts
Huaian City Transportation Bureau	1,672,912,371.30	46.65	
Jiangsu Province Huai'an City Road Administration Office	335,396,607.66	9.35	
Huai'an Municipal Urban Development & Construction Co., Ltd.	239,791,880.88	6.69	23,015,423.09
Lianyungang Haizhou Industrial Investment Co., Ltd.	155,299,790.44	4.33	
Lianshui County Transportation Bureau Rural Road Construction Office	143,285,581.36	4.00	
Total	2,546,686,231.64	71.01	23,015,423.09

### 3. Advance payments

#### (1) Advance payment is listed by age

Aging	Ending balance		Year-beginning balance	
	Amount	Proportion(%)	Amount	Proportion(%)
Within 1 year	64,127,236.76	81.92	33,970,075.35	93.16
1 to 2 years	13,025,910.92	16.64	824,888.74	2.26
2-3 years	389,763.80	0.50	1,351,126.90	3.71
over 3 years	740,106.79	0.95	317,572.31	0.87
Total	78,283,018.27	100.00	36,463,663.30	100.00

#### (2) Top 5 closing balance of advance payment by advance payment objects

Name of company	Ending balance	Proportion to total closing balance of advance payment (%)
China Aviation Supplies International Tendering Co., Ltd.	5,900,773.98	7.54
Huai'an Municipal Development Zone New Port Office	5,750,000.00	7.35
Huaian City Huaian District Nanwan Land Share Professional Cooperatives	5,000,000.30	6.39
China Coal Technology & Engineering Logistics Co., Ltd.	4,300,000.00	5.49
Huai'an Zhongyin Real Estate Co., Ltd.	3,407,684.00	4.35
Total	24,358,458.28	31.12

4. Other receivables

Items	Ending balance	Year-beginning balance
Other receivables	6,012,468,320.93	8,742,053,862.23
Interests receivable		
Dividends receivable		
Total	6,012,468,320.93	8,742,053,862.23

(1) Other receivables

① Disclosure of other receivable classification

Categories	Ending balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Other receivables with significant amount of single item and separate allowance for bad debts					
Other receivables with allowance for bad debts according to combination of credit risk characteristics	6,095,152,225.16	100.00	82,683,904.23	1.36	6,012,468,320.93
Of which: aging analysis portfolio	1,341,712,596.49	22.01	82,683,904.23	6.16	1,259,028,692.26
Other combinations	4,753,439,628.67	77.99		-	4,753,439,628.67
Other receivables with insignificant amount of single item but separate allowance for bad debts					
Total	6,095,152,225.16	100.00	82,683,904.23	1.36	6,012,468,320.93

(Continued)

Categories	Year-beginning balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Categories	Year-beginning balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Other receivables with significant amount of single item and separate allowance for bad debts					
Other receivables with allowance for bad debts according to combination of credit risk characteristics	8,812,330,216.09	100.00	70,276,353.86	0.80	8,742,053,862.23
Of which: aging analysis portfolio	1,061,822,376.72	12.05	70,276,353.86	6.62	991,546,022.86
Other combinations	7,750,507,839.37	87.95			7,750,507,839.37
Other receivables with insignificant amount of single item but separate allowance for bad debts					
<b>Total</b>	<b>8,812,330,216.09</b>	<b>100.00</b>	<b>70,276,353.86</b>	<b>0.80</b>	<b>8,742,053,862.23</b>

In the portfolio, other receivables with allowance for bad debts according to aging analysis method

Aging	Ending balance		
	Other receivables	Bad-debt provision	Proportion for withdrawing(%)
Within 1 year	740,370,002.10	-	-
1 to 2 years	520,932,767.48	52,093,276.74	10.00
2-3 years	48,071,429.88	14,421,428.97	30.00
over 3 years	32,338,397.03	16,169,198.52	50.00
<b>Total</b>	<b>1,341,712,596.49</b>	<b>82,683,904.23</b>	

(Continued)

Aging	Year-beginning balance		
	Other receivables	Bad-debt provision	Proportion for withdrawing(%)
Within 1 year	616,480,897.40	-	-
1 to 2 years	343,413,545.80	34,341,354.58	10.00
2-3 years	75,144,837.40	22,543,451.22	30.00
over 3 years	26,783,096.12	13,391,548.06	50.00
Total	1,061,822,376.72	70,276,353.86	

② Other receivables of the top five of the ending balance categorized by debtors

Name of company	The nature of payment	Ending balance	Proportion to total	Bad-debt
			closing balance of other receivables (%)	provision Ending balance
Huai'an Municipal Communication Bureau	Intercourse funds	1,532,301,149.88	25.14	
Jiangsu Province Railway Office	Intercourse funds	811,410,000.00	13.31	
Huai'an Municipal Finance Bureau	Intercourse funds	600,000,000.00	9.84	
Huai'an Municipal Industrial Development Investment Holding Group Co., Ltd.	Intercourse funds	175,000,000.00	2.87	17,500,000.00
Jiangsu Wancheng Steel Bridge Installation Co, Ltd.	Intercourse funds	70,364,928.54	1.15	
Total		3,189,076,078.42	52.32	17,500,000.00

## 5. Inventory

## (1) Inventory classification

Items	Ending balance		
	Book balance	Falling price reserves	Book value
Raw material	11,274,960.75		11,274,960.75
Low value consumables	303,177.16		303,177.16
Commodity stocks	84,903,188.23		84,903,188.23

Items	Ending balance		
	Book balance	Falling price reserves	Book value
Cost of development	3,264,358,962.96		3,264,358,962.96
Develop products	218,880,536.25		218,880,536.25
Revolving material	97,457.75		97,457.75
Engineering construction	84,567,057.98		84,567,057.98
Others	734,715.09		734,715.09
Total	3,665,120,056.17		3,665,120,056.17

(Continued)

Items	Year-beginning balance		
	Book balance	Falling price reserves	Book value
Raw material	11,610,832.12		11,610,832.12
Low value consumables	305,714.16		305,714.16
Commodity stocks	40,806,599.36		40,806,599.36
Cost of development	855,569,230.72		855,569,230.72
Develop products	113,267,509.51		113,267,509.51
Revolving material	82,210.91		82,210.91
Engineering construction	57,818,872.44		57,818,872.44
Others	328,070.53		328,070.53
Total	1,079,789,039.75		1,079,789,039.75

## (2) Inventory falling price reserves

As of Monday, December 31, 2018, the company had not found the recoverable amount of inventory lower than its book value, so no provision for inventory devaluation was made.

**6. Other current assets**

Items	Ending balance	Year-beginning balance
Prepaid taxes	268,216,032.91	159,626,497.24
Prepaid expenses	8,225,193.39	2,626,621.08
Total	276,441,226.30	162,253,118.32

**7. Available-for-sale financial assets**

## (1) Available-for-sale financial assets

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance			Year-beginning balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Available-for-sale equity tool	1,204,112,020.51	15,400,000.00	1,188,712,020.51	1,017,745,020.51	15,400,000.00	1,002,345,020.51
Of which:						
measured at fair value						
Measured by cost	1,204,112,020.51	15,400,000.00	1,188,712,020.51	1,017,745,020.51	15,400,000.00	1,002,345,020.51
Others						
Total	1,204,112,020.51	15,400,000.00	1,188,712,020.51	1,017,745,020.51	15,400,000.00	1,002,345,020.51

(2) Available-for-sale financial assets measured by cost at the end of the period

The invested entity	Period-end book balance	Period-end provision for impairment	Period-end book value	Period-end shareholding ratio
Hongze County Rural Credit Cooperatives	20,000,000.00		20,000,000.00	3.85%
Huai'an Municipal Huaitong Material Supply and Sales Co., Ltd.	1,510,114.51		1,510,114.51	16.25%
Huai'an Municipal District Rural Credit Cooperatives	540,000.00		540,000.00	0.14%
Jiangsu Traffic Card Co., Ltd.	600,000.00		600,000.00	2.00%
Huai'an Shuanglong Weiye Technology Co., Ltd.	1,000,000.00		1,000,000.00	10.00%
China Power Construction (Guangdong) Zhongkai Expressway Co., Ltd.	100,000,000.00		100,000,000.00	10.00%
Shanghai Shi Tian You Lun Industry Development Co., Ltd.	10,000,000.00		10,000,000.00	10.00%
Jiangsu Jinghu Expressway Co., Ltd.	255,517,000.00		255,517,000.00	5.54%
Jiangsu Ningsuxu Expressway Co., Ltd.	16,900,000.00		16,900,000.00	0.81%
Bank of Jiangsu	10,024,906.00		10,024,906.00	0.10%
Jiangsu Ninghuai Modern Service Industry Investment Development Co., Ltd.	45,000,000.00		45,000,000.00	9.00%
Huaiyang Cuisine Group Co., Ltd.	10,000,000.00		10,000,000.00	1.78%
Jiangsu Zijin Railway Co., Ltd.	68,820,000.00		68,820,000.00	4.43%

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Jiangsu Zhongke Xianglan Concave Earth Co., Ltd.	20,000,000.00		20,000,000.00	13.33%
Huai'an Municipal Financial Holding Co., Ltd.	100,000,000.00		100,000,000.00	12.20%
Huai'an Municipal Urban Development & Construction Co., Ltd.	400,000,000.00		400,000,000.00	11.76%
Huaian Jinwang Logistics Co., Ltd. (note)	7,800,000.00		7,800,000.00	40.00%
Jiangsu Ante Automobile Manufacturing Co., Ltd.	2,400,000.00	2,400,000.00		
Zhonghai Trust Fund	1,500,000.00		1,500,000.00	
Sino-Australian International Trust Fund	2,000,000.00		2,000,000.00	
Bank of Communications International Trust	1,500,000.00		1,500,000.00	
Suzhou-Huai'an railway Co., Ltd.	13,000,000.00	13,000,000.00		
Huaian Municipal Government Key Enterprise Development Fund Co., Ltd.	50,000,000.00		50,000,000.00	9.71%
Huaian Financing Guarantee Group Co., Ltd.	66,000,000.00		66,000,000.00	16.67%
Total	1,204,112,020.51	15,400,000.00	1,188,712,020.51	

Note: closing shareholding ratio of the Company for Huaian Jinwang Logistics Co., Ltd. is 40.00%. But, the Company doesn't dispatch management and decision-making personnel, and doesn't participate in operation and management, and has no significant influence on its finance and operation.

**8. Long-term equity investment**

The invested entity	Accounting method	Investment Cost	Year-beginning balance	Increases or decreases			Year-end balance
				Additional investment	Investment gains and losses affirmed under equity method	Declaration of cash dividends or profits	
Huai'an Municipal Qingpu District Huize Rural Microfinance Co., Ltd.	Equity method	16,534,830.00	39,430,231.71		2,017,673.38	-1,299,000.00	40,148,905.09
Huai'an Xin'ao Public Transportation	Equity method	1,750,000.00	1,106,542.52		254,487.21		1,361,029.73

& Clean Energy Co., Ltd.							
Jiangsu Caifa Investment Co., Ltd.	Equity method	3,000,000.00	1,660,315.27		18,113.57		1,678,428.84
<b>Total</b>		<b>21,284,830.00</b>	<b>42,197,089.50</b>		<b>-2,290,274.16</b>	<b>-1,299,000.00</b>	<b>43,188,363.66</b>

**9. Investment real estate**

(1) Investment real estate calculated at fair value:

Items	Houses and buildings	Total
I. Year-beginning balance		
II. Current change	45,805,400.000	45,805,400.000
Add: outsourcing		
Transfer of the fixed assets	45,805,400.000	45,805,400.000
Less: disposal		
Other transfers		
Increase or decrease of fair value		
III. Closing balance	45,805,400.000	45,805,400.000

(2) real estate conversion conditions

On December 1, 2018, original self-owned real estate of the Company was changed for rent, and fixed assets were changed to investment real estate and measured by using fair value. On the transition date, difference between its fair value, i.e. RMB 45,805,400.00 Yuan, and its original book value, i.e. RMB 30,936,102.54 Yuan, was included in the other comprehensive income.

10. Fixed assets									
Items	Housing and structures	Special equipment	Machinery equipment	Transportation equipment	Electronic & office equipment	Toll road assets, etc.	Total		
First, original book value									
1. Year-beginning balance	963,928,151.94	672,753.05	308,345,582.96	951,246,145.71	36,297,876.76	2,807,821,992.54	5,068,312,502.96		
2. Increased amount in current period	102,743,590.88	-	42,860,715.82	300,666,003.26	13,024,071.95	-	459,294,381.91		
(1) purchase	102,743,590.88		42,860,715.82	3,310,944.82	13,024,071.95		161,939,323.47		
(2) transfer of the project under construction				297,355,058.44			297,355,058.44		
3. The decreased amount of the current period	63,120,783.30	-	383,400.00	787,695.78	810,705.00	36,885,458.00	101,988,042.08		
(1) disposal or scrap	-		383,400.00	787,695.78	810,705.00	36,885,458.00	38,867,258.78		
(2) Conversion into investment real estate	63,120,783.30						63,120,783.30		
4. Year-end balance	1,003,550,959.52	672,753.05	350,822,898.78	1,251,124,453.19	48,511,243.71	2,770,936,534.54	5,425,618,842.79		
Second, accumulated depreciation									
1. Year-beginning balance	244,348,744.72	371,648.45	158,852,560.03	269,121,092.80	32,207,199.42	24,091,264.58	728,992,510.00		
2. Increased amount in current period	28,831,523.96	16,671.23	19,671,615.97	101,165,976.21	4,471,210.47	9,471,455.04	163,628,452.88		
(1) withdrawing	28,831,523.96	16,671.23	19,671,615.97	101,165,976.21	4,471,210.47	9,471,455.04	163,628,452.88		
3. The decreased amount of the current period	32,184,680.76	-	366,530.08	1,449,294.99	58,664.10	-	34,059,169.93		
(1) disposal or scrap	-	-	366,530.08	1,449,294.99	58,664.10		1,874,489.17		
(2) Conversion into investment real estate	32,184,680.76						32,184,680.76		
4. Year-end balance	240,995,587.92	388,319.68	178,157,645.92	368,837,774.02	36,619,745.79	33,562,719.62	858,561,792.95		
Third, depreciation reserves									

1. Year-beginning balance									
2. Increased amount in current period									
(1) withdrawing									
3. The decreased amount of the current period									
(1) disposal or scrap									
4. Year-end balance									
Fourth, book value									
1. Period-end book value	762,555,371.60	284,433.37	172,665,252.86	882,286,679.17	11,891,497.92	2,737,373,814.92	4,567,057,049.84		
2. Year-beginning book value	719,579,407.22	301,104.60	149,493,022.93	682,125,052.91	4,090,677.34	2,783,730,727.96	4,339,319,992.96		

#### 11. Construction in progress

##### (1) Construction in process

Items	Ending balance			Year-beginning balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Tramway Project Phase I	2,840,823,300.30		2,840,823,300.30	2,729,409,994.61		2,729,409,994.61
Railway crossing project	106,503.00		106,503.00	313,376.54		313,376.54
Traffic Road Store Fa?ade Renovation Project	67,494.00		67,494.00	67,494.00		67,494.00
Tourist Resort Renovation Project	4,941,534.62		4,941,534.62	3,629,142.24		3,629,142.24
Universal Wharf of Huai'an Industrial Park	262,178,574.16		262,178,574.16	262,170,083.59		262,170,083.59
New Factory Reconstruction and Expansion Project	1,995,626.66		1,995,626.66	1,216,009.10		1,216,009.10
40.5t-16m Shore Crane				10,613,675.22		10,613,675.22
40.5t-40m Gantry Crane				7,442,735.04		7,442,735.04

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance			Year-beginning balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
10KV Exterior Line Access Project	1,745,695.73		1,745,695.73	689283.02		689283.02
Customs supervision site	2,861,986.12		2,861,986.12	369230.77		369230.77
Billboard Construction	5,952,112.84		5,952,112.84	5,952,112.84		5,952,112.84
Civil Airport Project Phase I	386,904,344.51		386,904,344.51	270,732,080.67		270,732,080.67
Other projects	315,294.35		315,294.35			
Jinghang Canal Double-Huai Section Regulation Project	10,943,172.32		10,943,172.32	4,390,608.35		4,390,608.35
South interchange connection line project of Suzhou-Huai'an Railway	552,302,443.14		552,302,443.14	498,301,921.42		498,301,921.42
Li Canal Regulation Project	59,376,518.47		59,376,518.47	21,132,757.65		21,132,757.65
West Huaihai Road Extension Project	52,751,743.39		52,751,743.39	7,308,959.11		7,308,959.11
Xiangyu Avenue Project Phase I	2,324,842.44		2,324,842.44	1,500,000.00		1,500,000.00
Huaihe Road Project	4,269,041.83		4,269,041.83	1,500,000.00		1,500,000.00
Hongze Subei Irrigation Canal Bridge Project	8,589,499.64		8,589,499.64	3,000,000.00		3,000,000.00
West round-city highway	57,606,104.07		57,606,104.07	20,000,000.00		20,000,000.00
New Port Tonggang Road West Section Project	21,415,910.50		21,415,910.50	2,833,478.51		2,833,478.51
Militia Training Base Road	1,368,741.90		1,368,741.90	1,368,741.90		1,368,741.90
South Huaihai Road and Ninglian Road Greening Project	4,169,903.42		4,169,903.42	1,500,000.00		1,500,000.00
Gingpu-Jinhu Traffic Project (Huaijin Line)	583,218,189.06		583,218,189.06	235,000,000.00		235,000,000.00
Huai'an Municipal Tianjin Road Grand Canal Bridge	215,665,719.51		215,665,719.51	96,029,303.80		96,029,303.80
New Port Project Phase I	79,589,624.51		79,589,624.51	79,515,373.51		79,515,373.51
Airport Road Project Phase II	122,010,973.19		122,010,973.19	142,467,827.94		142,467,827.94

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance			Year-beginning balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Huai'an New City Road Project	159,747,514.83		159,747,514.83	58,688,003.10		58,688,003.10
South Beijing Road	105,750,315.33		105,750,315.33	46,515,875.16		46,515,875.16
West Interchange Project	71,577,468.90		71,577,468.90	28,207,621.38		28,207,621.38
Huaiyin District Artery Road Construction Command	43,069,393.55		43,069,393.55	26,737,898.99		26,737,898.99
Chuzhou District 237 Provincial Highway Project	30,743,984.99		30,743,984.99	21,056,159.91		21,056,159.91
Mingyuan Road Project	37,918,690.76		37,918,690.76	18,710,227.18		18,710,227.18
326 Provincial Highway Lianshui Section Reform Command	14,430,670.83		14,430,670.83	17,593,058.91		17,593,058.91
Lianshui 327 road project	25,694,543.79		25,694,543.79	12,659,556.91		12,659,556.91
South Ship North Horse Sculpture Project	24,830,750.46		24,830,750.46	11,057,785.27		11,057,785.27
South Passenger Terminal Yuxiu Road Project	17,817,422.51		17,817,422.51	10,052,235.84		10,052,235.84
Demolition of Hongwei Bridge Dock	19,583,413.97		19,583,413.97	9,277,244.55		9,277,244.55
Huaihe-Yantze River Waterway Superbridge	924,130.52		924,130.52	5,301,808.54		5,301,808.54
South Passenger Terminal Square	25,078,745.69		25,078,745.69	9,954,267.13		9,954,267.13
Huai'an Transportation Auto Trade Mall	8,263,565.63		8,263,565.63	2,918,444.64		2,918,444.64
Erhe Wudun bridge project	8,616,011.13		8,616,011.13	3,285,213.29		3,285,213.29
2011 Huai'an Li Canal Scenery Belt Project	2,518,827.51		2,518,827.51	1,070,000.00		1,070,000.00
New town project	95,000,000.00		95,000,000.00	95,000,000.00		95,000,000.00
Engineering materials	20,000,000.00		20,000,000.00	20,000,000.00		20,000,000.00
Total	5,975,080,344.08		5,975,080,344.08	4,786,559,590.63		4,786,559,590.63

**12. Intangible assets**

(1) Intangible assets

Items	Land use right	Software	Total
First, original book value			
1. Year-beginning balance	453,852,556.45	4,649,166.90	458,501,723.35
2. Increased amount in current period	-	1,535,026.14	1,535,026.14
(1) purchase		1,535,026.14	1,535,026.14
3. The decreased amount of the current period	60,931,668.50		60,931,668.50
(1) Conversion into other non-current assets	60,931,668.50		60,931,668.50
4. Year-end balance	392,920,887.95	6,184,193.04	399,105,080.99
Second, accumulated amortization			-
1. Year-beginning balance	34,124,042.05	319,891.90	34,443,933.95
2. Increased amount in current period	3,595,698.68	684,486.77	4,280,185.45
(1) withdrawing	3,595,698.68	684,486.77	4,280,185.45
3. The decreased amount of the current period	10,324,769.63		10,324,769.63
(1) Conversion into other non-current assets	10,324,769.63		10,324,769.63
4. Year-end balance	27,394,971.10	1,004,378.67	28,399,349.77
Third, depreciation reserves			-
1. Year-beginning balance			-
2. Increased amount in current period			-
(1) withdrawing			-
3. The decreased amount of the current period			-
(1) Disposal			-
4. Year-end balance			-
Fourth, book value			-
1. Period-end book value	365,525,916.85	5,179,814.37	370,705,731.22
2. Year-beginning book value	419,728,514.40	4,329,275.00	424,057,789.40

**13. Goodwill**

(1) Goodwill book value

Name of invested companies or goodwill formation	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

		Business merger		Disposal	
		Formation			
Huai'an Municipal Modern Tramway Co., Ltd.	324,284,400.47				324,284,400.47
Total	324,284,400.47				324,284,400.47

**14. Long-term deferred expenses**

Items	Year-beginning balance	Increased amount in current period	Amortization amount in current period	Other decreased amount	Period-end amount
Fixed asset renovation, decoration	11,586,853.24	10,824,736.51	4,949,213.89		17,462,375.86
Pending financing costs		1,240,591.63	885,036.60		355,555.03
Total	11,586,853.24	12,065,328.14	5,834,250.49	-	17,817,930.89

**15. Deferred income tax assets/deferred income tax liabilities**

(1) Non-offset deferred income tax asset details

Items	Ending balance		Year-beginning balance	
	Deductible temporary difference	Deferred income tax assets:	Deductible temporary difference	Deferred income tax assets:
Preparation for the impairment of assets	128,975,884.87	32,243,971.22	124,191,432.11	31,047,858.03
Deductible loss	22,516,405.45	5,629,101.36		
Total	151,492,290.32	37,873,072.58	124,191,432.11	31,047,858.03

(2) Details of non-offset deferred tax liabilities

Items	Ending balance		Year-beginning balance	
	Taxable temporary difference	Deferred income tax liabilities:	Taxable temporary difference	Deferred income tax liabilities:
Increase and decrease in fair value of investment properties	14,869,297.48	3,717,324.37		
Total	14,869,297.48	3,717,324.37		

**16. Other non-current assets**

Items	Ending balance	Year-beginning balance
Municipal Artery Highway S247 and other highways	5,040,840,297.00	5,040,840,297.00
Right for accessing Yanhe Waterway and other waterways	7,002,789,958.14	6,912,314,980.00
Right for accessing Gaoliangjian Ship-Lock (3rd Line) Ship-Lock, etc.	906,178,468.60	906,178,468.60
Total	12,949,808,723.74	12,859,333,745.60

Note: Municipal Artery Highway S247 and other highways are public welfare assets.

**17. Short-term loan**

(1) Short-term loan classification

Items	Ending balance	Year-beginning balance
Pledge borrowings	20,000,000.00	
Mortgage borrowings	30,000,000.00	15,000,000.00
Guaranteed loan	482,000,000.00	260,000,000.00
Borrowings on credit	410,000,000.00	377,004,767.38
Total	942,000,000.00	652,004,767.38

**18. Notes payable and accounts payable**

Categories	Ending balance	Year-beginning balance
Bills payable	89,873,081.83	104,433,714.97
Accounts payable	1,405,135,036.48	1,375,733,849.07
Total	1,495,008,118.31	1,480,167,564.04

(1) Bills payable

Categories	Ending balance	Year-beginning balance
Trade acceptance		
Bank acceptance	89,873,081.83	104,433,714.97
Total	89,873,081.83	104,433,714.97

(2) Accounts payable

① Accounts payable

Items	Ending balance	Year-beginning balance
Within 1 year	1,177,892,948.66	980,892,876.96

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance	Year-beginning balance
1-2 years	170,076,897.64	287,956,307.60
2-3 years	53,300,866.55	75,691,154.32
over 3 years	3,864,323.63	31,193,510.19
	1,405,135,036.48	1,375,733,849.07

② Major payables aged over 1 year

Items	Ending balance	Reasons for outstanding or carrying over
Merger of Yangwan Mixing Plant	32,898,356.54	Not yet settled
Yunnan Lucky Air Co., Ltd.	2,240,000.00	Not yet settled
Sinopec Sales Co., Ltd Jiangsu Huai'an Petroleum Branch	1,568,272.44	Not yet settled
Yibaijia Film and Television Culture Advertising Co., Ltd.	1,000,000.00	Not yet settled
Total	37,706,628.98	

19. Advance receipts

(1) List of advance receipts

Items	Ending balance	Year-beginning balance
Within 1 year	464,062,817.61	95,997,240.28
1-2 years	28,550,618.02	780,481.07
2-3 years	105,651.31	883,052.15
over 3 years	215,295.82	45,313.00
Total	492,934,382.76	97,706,086.50

(2) Major advance receipts aged over 1 year

Items	Ending balance	Reasons for outstanding or carrying over
Advance payment of housing expenses	28,022,147.35	Not yet settled
Total	28,022,147.35	

20. Taxes and fees payable

Items	Ending balance	Year-beginning balance
Value-added tax	74,363,420.71	38,623,206.93
Urban construction tax	6,078,594.36	5,398,458.84
Education surcharge	4,198,905.64	3,682,133.47

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance	Year-beginning balance
Housing property tax	798,984.02	123,043.74
Land use tax	587,484.17	569,230.03
Increment tax on land value	1,955,406.44	3,223,927.57
Enterprise income tax	233,712,120.71	197,065,181.61
Individual income tax	91,041.14	425,898.20
Stamp duty	160,338.34	166,348.09
Others	5,032.66	26,653.60
<b>Total</b>	<b>321,951,328.19</b>	<b>249,304,082.08</b>

**21. Other payables**

Items	Ending balance	Year-beginning balance
Other payables	1,475,365,605.62	2,846,522,700.73
Interests payable	27,112,036.19	2,838,134.44
Dividends payable	12,000,000.00	
<b>Total</b>	<b>1,514,477,641.81</b>	<b>2,849,360,835.17</b>

(1) Other payables

① List of other payables by age

Items	Ending balance	Year-beginning balance
Within 1 year (including 1 year)	846,903,946.64	2,219,767,405.27
1-2 years (including 2 years)	248,059,647.99	240,544,433.66
2-3 years (including 3 years)	197,240,488.74	146,503,372.67
over 3 years	183,161,522.25	239,707,489.13
<b>Total</b>	<b>1,475,365,605.62</b>	<b>2,846,522,700.73</b>

② Major other payables aged over 1 year

Items	Ending balance	Reasons for outstanding or carrying over
Jiangsu Shimao Real Estate Development Co., Ltd.	22,681,423.88	Not yet settled
Lianshui County Traffic Bureau	21,375,215.00	Not yet settled
<b>Total</b>	<b>44,056,638.88</b>	

(2) Interests payable

Items	Ending balance	Year-beginning balance
Interests on long-term loan with installment interests and principal repayment at maturity	9,348,835.64	2,838,134.44
Corporate bond interests	17,763,200.55	
Total	27,112,036.19	2,838,134.44

(3) Dividends payable

Items	Ending balance	Year-beginning balance
Ordinary stock dividends	12,000,000.00	
Total	12,000,000.00	

22. Non-current liabilities due within one year

Items	Ending balance	Year-beginning balance
Long-term loans due within one year	1,240,580,000.00	862,870,000.00
Bonds payable due within one year	2,772,650,000.00	400,000,000.00
Long-term payable due within one year		
Total	4,013,230,000.00	1,262,870,000.00

23. Other current liabilities

Items	Ending balance	Year-beginning balance
Short-term financing bonds (18 Huaian Transportation CP001)	300,000,000.00	
Dongwu Securities--Asset Management Plan		353,862,246.00
Total	300,000,000.00	353,862,246.00

24. Long-term loan

Items	Ending balance	Year-beginning balance
Pledge borrowings	3,179,650,000.00	2,471,100,000.00
Mortgage borrowings		136,870,000.00
Guaranteed loan	3,784,010,000.00	1,881,620,000.00
Borrowings on credit	950,000,000.00	3,155,250,000.00
Less: long-term loans due within one year	1,240,580,000.00	862,870,000.00
Total	6,673,080,000.00	6,781,970,000.00

25. Debts payable

(1) Debts payable

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance	Year-beginning balance
14 Huai Transport Control (125469)	-	400,000,000.00
15 Huai'an Transport Control MTN001 (101583002)	374,646,442.43	500,000,000.00
15 Huai'an Transportation PPN001 (F031578007)	499,393,662.84	500,000,000.00
16 Huai Transport Control (135265)	500,000,000.00	500,000,000.00
16 Huai Transport Bond (135642)	698,097,551.71	700,000,000.00
16 Huai Transportation (114094)	966,224,688.63	970,000,000.00
2016 overseas bonds	2,062,650,000.00	1,981,206,234.52
17 Huai Transport Control (145896)	1,497,578,670.81	1,500,000,000.00
17 Su Huai'an Transportation ZR001	399,494,753.70	400,000,000.00
17 Huai'an Transportation PPN001 (031778011)	498,884,137.13	500,000,000.00
18 Su Huai'an Transportation ZR001 (18CFZR0159)	1,597,628,853.14	-
18 Huai'an Transportation MTN001 (101800693)	498,697,456.24	-
18 Huai'an Transportation PPN	299,171,105.24	-
Sub-total	9,892,467,321.87	7,951,206,234.52
Less: partial ending balance due within one year	2,772,650,000.00	400,000,000.00
Total	7,119,817,321.87	7,551,206,234.52

(2) Increases and decreases of bonds payable (excluding other financial instruments such as preferred stock and perpetual bond classified as financial liabilities)

Bond name	Face value	Issue date	Bond maturity	Issue amount	Year-beginning balance
14 Huai Transport Control (125469)	400,000,000.00	2/6/2015	3 years	400,000,000.00	400,000,000.00
15 Huai'an Transport Control MTN001 (101583002)	500,000,000.00	10/12/2015	5 years	500,000,000.00	500,000,000.00
15 Huai'an Transportation PPN001 (F031578007)	500,000,000.00	10/21/2015	5 years	500,000,000.00	500,000,000.00
16 Huai Transport Control	500,000,000.00	3/1/2016	3 years	500,000,000.00	500,000,000.00

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

(135265)					
16 Huai Transport Bond (135642)	700,000,000.00	7/21/2016	5 years	700,000,000.00	700,000,000.00
16 Huai Transportation (114094)	1,000,000,000.00	12/14/2016	5 years	1,000,000,000.00	970,000,000.00
2016 overseas bonds	300,000,000.00 dollars	10/25/2016	3 years	300,000,000.00 dollars	1,981,206,234.52
17 Huai Transport Control (145896)	1,500,000,000.00	11/27/2017	5 years	1,500,000,000.00	1,500,000,000.00
17 Su Huai'an Transportation ZR001	400,000,000.00	11/14/2017	3 years	400,000,000.00	400,000,000.00
17 Huai'an Transportation PPN001 (031778011)	500,000,000.00	8/9/2017	5 years	500,000,000.00	500,000,000.00
18 Su Huai'an Transportation ZR001 (18CFZR0159)	1,600,000,000.00	3/8/2018	3 years	1,600,000,000.00	
18 Huai'an Transportation MTN001 (101800693)	500,000,000.00	7/30/2018	3 years	500,000,000.00	
18 Huai'an Transportation PPN	300,000,000.00	10/16/2018	3 years	300,000,000.00	
Sub-total					7,951,206,234.52
Less: partial ending balance due within one year					
14 Huai Transport Control (125469)					400,000,000.00
Total	10,374,806,684.56			10,374,806,684.56	7,551,206,234.52

(Continued)

Bond name	Issue in current period	Repayment in current period	Interest adjustment	Ending balance
14 Huai Transport Control (125469)		400,000,000.00		-
15 Huai'an Transport Control MTN001 (101583002)		125,000,000.00	-353,557.57	374,646,442.43
15 Huai'an Transportation PPN001 (F031578007)			-606,337.16	499,393,662.84
16 Huai Transport Control				500,000,000.00

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

(135265)				
16 Huai Transport Bond (135642)			-1,902,448.29	698,097,551.71
16 Huai Transportation (114094)			-3,775,311.37	966,224,688.63
2016 overseas bonds			81,443,765.48	2,062,650,000.00
17 Huai Transport Control (145896)			-2,421,329.19	1,497,578,670.81
17 Su Huai'an Transportation ZR001			-505,246.30	399,494,753.70
17 Huai'an Transportation PPN001 (031778011)			-1,115,862.87	498,884,137.13
18 Su Huai'an Transportation ZR001 (18CFZR0159)	1,600,000,000.00		-2,371,146.86	1,597,628,853.14
18 Huai'an Transportation MTN001 (101800693)	500,000,000.00		-1,302,543.76	498,697,456.24
18 Huai'an Transportation PPN	300,000,000.00		-828,894.76	299,171,105.24
<b>Sub-total</b>	<b>2,400,000,000.00</b>	<b>525,000,000.00</b>	<b>66,261,087.35</b>	<b>9,892,467,321.87</b>
Less: partial ending balance due within one year				2,772,650,000.00
16 Huai Transport Control (135265)				500,000,000.00
2016 overseas bonds				2,062,650,000.00
16 Huai Transport Bond (135642)				210,000,000.00
<b>Total</b>	<b>2,400,000,000.00</b>	<b>525,000,000.00</b>	<b>66,261,087.35</b>	<b>7,119,817,321.87</b>

**26. Long-term payables**

Items	Ending balance	Year-beginning balance
Long-term payables	527,254,544.28	580,663,615.73
Special accounts payable	47,363,755.46	47,363,755.46
<b>Total</b>	<b>574,618,299.74</b>	<b>628,027,371.19</b>

(1) Long-term payables

Items	Ending balance	Year-beginning balance
Financial leasing	58,254,544.28	111,663,615.73

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	Ending balance	Year-beginning balance
Local debt	469,000,000.00	469,000,000.00
<b>Total</b>	<b>527,254,544.28</b>	<b>580,663,615.73</b>

(2) Special accounts payable

Items	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance
1. Port Construction Project Funding	16,400,000.00			16,400,000.00
2. South Passenger Terminal Funding	18,000,000.00			18,000,000.00
3. Jinwang Logistics Project Funding	3,000,000.00			3,000,000.00
4. New Port Project Funding	1,600,000.00			1,600,000.00
5. Huai'an Municipal Communication Bureau Renovation Funding	761,719.72		761,719.72	-
6. Other Project Fundings	2,436,222.01	761,719.72		3,197,941.73
7. Special Equipment Purchase Funding	5,165,813.73			5,165,813.73
<b>Total</b>	<b>47,363,755.46</b>	<b>761,719.72</b>	<b>761,719.72</b>	<b>47,363,755.46</b>

27. Paid-in capital

Name of investor	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance
Huai'an Municipal People's Government State-owned Asset Supervision and Administration Commission	14,345,219,734.71			14,345,219,734.71
<b>Total</b>	<b>14,345,219,734.71</b>			<b>14,345,219,734.71</b>

28. Other equity instruments

(1) Changes in financial instruments of preferred stock and perpetual bond issued externally at the end of period

Financial instruments issued externally	Year-beginning balance		Increase in the current period		Decrease in the current period		Ending balance	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
Perpetual debt		1,200,000,000.00						1,200,000,000.00
<b>Total</b>		<b>1,200,000,000.00</b>						<b>1,200,000,000.00</b>

**29. Capital reserve**

Items	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance
Others capital reserves	3,590,373,007.53			3,590,373,007.53
Total	3,590,373,007.53			3,590,373,007.53

**30. Other comprehensive income**

Items	Year-beginning balance	Current period total			Ending balance
		Amount incurred before income tax	Less: Income tax expenses	Post-tax attributed to parent company	
I. Other comprehensive income reclassified into profit and loss					
Investment real estate that private real estate is converted into fair value for measurement		14,869,297.46	3,717,324.37	11,151,973.09	11,151,973.09
Total		14,869,297.46	3,717,324.37	11,151,973.09	11,151,973.09

**31. Surplus reserve**

Items	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance
Legal surplus reserve	148,950,272.39	22,765,727.65		171,716,000.04
Total	148,950,272.39	22,765,727.65		171,716,000.04

Note: According to provisions of the Company Law and the Articles of Association, the company draws statutory surplus reserve fund as per 10% of net profits. If the cumulative statutory surplus reserve is more than 50% of registered capital of the company, it may not be withdrawn.

**32. Undistributed profit**

Items	Current period	Last period
Undistributed profit before adjustment at the end of last year	1,285,731,000.74	1,170,403,950.45
Total adjustment of undistributed profit at the beginning of period (increase +, decrease -)		
Undistributed profit after adjustment at the beginning of period	1,285,731,000.74	1,170,403,950.45

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

Items	Current period	Last period
Plus: Net profit attributable to shareholders of parent company in current period	101,548,998.06	139,621,725.48
Less: Withdrawal of statutory surplus reserve	22,765,727.65	24,294,675.19
Withdrawal of discretionary surplus reserve		
Withdrawal of common risk reserve		
Common stock dividends payable	6,129,600.00	
Common stock dividends converted into capital stock		
Undistributed profit at the end of period	1,358,384,671.15	1,285,731,000.74

**33. Operating income and operating cost****(1) Operating income and operating cost:**

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Incomings	Cost	Incomings	Cost	Incomings	Cost
Main business	2,377,949,972.90	2,254,489,125.50	2,069,529,918.22	1,918,480,611.18	1,519,347,510.70	1,349,872,755.58
Other businesses	27,985,893.91	4,087,550.06	51,573,662.21	4,101,905.30	18,351,512.68	2,712,695.14
Total	2,405,935,866.81	2,258,576,675.56	2,121,103,580.43	1,922,582,516.48	1,537,699,023.38	1,352,585,450.72

**(2) Main business income and main business cost by business category:**

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Main business income	Main business cost	Main business income	Main business cost	Main business income	Main business cost
Transport construction	1,804,822,032.23	1,407,381,710.54	1,616,636,762.69	1,209,132,437.28	1,190,467,443.99	893,905,539.00
Transportation	310,901,330.07	616,938,170.50	244,354,138.14	527,032,320.77	221,922,278.41	372,328,515.81
Commercial trade	217,655,269.23	197,327,228.47	188,568,677.57	170,719,366.08	88,944,146.76	71,129,999.29
Others	44,571,341.37	32,842,015.99	19,970,339.82	11,596,487.05	18,013,641.54	12,508,701.48
Total	2,377,949,972.90	2,254,489,125.50	2,069,529,918.22	1,918,480,611.18	1,519,347,510.70	1,349,872,755.58

**(3) Other business incomes and other business costs by business category:**

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Other business revenue	Other operating costs	Other business revenue	Other operating costs	Other business revenue	Other operating costs
Providing labor services	7,841,036.10	413,338.75	682,264.13	157,037.74	12,635,599.52	666,111.39
Leasing business	9,704,179.28	3,064,861.71	35,156,081.75	3,090,347.08	5,709,875.43	2,046,583.75
Others	10,440,678.53	609,349.60	15,735,316.33	854,520.48	6,037.73	
Total	27,985,893.91	4,087,550.06	51,573,662.21	4,101,905.30	18,351,512.68	2,712,695.14

**34. Financial expenses**

Items	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Interest expense	50,326,165.68	75,938,988.90	30,118,276.42
Minus: Interest income	22,907,605.81	20,184,239.55	3,070,627.46
Plus: Other expenses	2,256,483.49	337,679.36	145,555.42
Plus: Exchange gains and losses		-49,943,765.48	
Total	29,675,043.36	6,148,663.23	27,193,204.38

**35. Asset impairment losses**

ITEMS	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Bad debt loss	4,784,452.76	59,463,721.45	59,366,725.18
Impairment losses of available-for-sale financial assets			2,400,000.00
Total	4,784,452.76	59,463,721.45	61,766,725.18

**36. Other revenues**

Items	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Government grants related to daily business activities	248,031,036.72	246,628,373.84	
Stable post subsidy	163,872.59		
Total	248,194,909.31	246,628,373.84	

Among them, government grants are as follows:

Items of grants	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Project subsidy	654,400.00		
Subsidy for broken space	3,615,330.70		
Subsidies for containers, terminals and ports	11,268,120.00		
Subsidy for bus operation	133,827,378.98	107,443,914.63	
Subsidies for tram operation	53,789,307.04	33,010,950.00	
Small and medium-sized airport grants	43,482,800.00	106,173,509.21	
Other grants	1,393,700.00		
Total	248,031,036.72	246,628,373.84	

**37. INVESTMENT INCOME**

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Long-term equity investment incomes by equity methods	991,274.16	839,563.87	9,408,350.74
Investment revenue of available-for-sale financial assets during holding period	59,789,883.26	56,577,289.51	55,709,400.00
Investment income earned from disposal of available-for-sale financial assets	-150,000.00		-13,000,000.00
<b>Total</b>	<b>60,631,157.42</b>	<b>57,416,853.38</b>	<b>52,117,750.74</b>

**38. PROCEED FROM DISPOSAL OF ASSET**

ITEMS	THE YEAR OF 2018	THE YEAR OF 2017	THE YEAR OF 2016
Revenue from selling assets held for sale			
Total revenue of non-current asset disposal	31,915,792.37	-561,663.89	-1,726,673.69
Of which: revenue from fixed asset disposal	-177,565.50	980,541.93	-1,726,673.69
Revenue from disposal of construction in progress	32,093,357.87		
Revenue from disposal of productive biological asset			
Revenue from intangible asset disposal		-1,542,205.82	
Revenue from non-monetary asset exchange			
<b>TOTAL</b>	<b>31,915,792.37</b>	<b>-561,663.89</b>	<b>-1,726,673.69</b>

**39. Non-operating income**

Items	The Year of 2018	The Year of 2017	The Year of 2016
Abandoned profits from damage of non-current assets	27,169.56		
Government subsidies	100,000.00		255,454,893.58
Donation gains		455,600.00	1,170,300.00
Damages	147,911.98	1,583,205.72	
Others	1,311,193.21	6,031,824.56	17,379,741.73
<b>Total</b>	<b>1,586,274.75</b>	<b>8,070,630.28</b>	<b>274,004,935.31</b>

Among them, government grants are as follows:

Items of grants	The Year of 2018	The Year of 2017	The Year of 2016
Subsidies for the establishment of civilized city	100,000.00		

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Items of grants	The Year of 2018	The Year of 2017	The Year of 2016
Small and medium-sized airport grants			89,000,000.00
Transportation grants			166,344,893.58
Other grants			110,000.00
Total	100,000.00		255,454,893.58

**40. Non-operating expenses**

Items	The Year of 2018	The Year of 2017	The Year of 2016
Public welfare donation expenses	1,415,816.36	2,273,555.72	1,294,599.18
Inventory losses		13,110.50	
Delay charge	62,126.61	3,178,871.56	
Liquidated damages	2,459,560.29	2,001,237.83	
Others	392,763.17	174,740.09	295,985.66
Total	4,330,266.43	7,641,515.70	1,590,584.84

**41. 40 Income tax expenses**

(1) Income Tax Expense Statement

Items	The Year of 2018	The Year of 2017	The Year of 2016
Current income tax expense	49,138,038.58	48,115,762.38	27,853,060.52
Deferred income tax expense	-6,564,541.01	-14,781,666.38	-14,873,978.15
Total	42,573,497.57	33,334,096.00	12,979,082.37

**42. Supplementary information of cash flow statement**

(1) Supplementary information of cash flow statement

Supplementary Information	The Year of 2018	The Year of 2017	The Year of 2016
<b>1. Convert net profit to cash flow from operating activities</b>			
Net profit	142,521,486.72	167,791,848.78	219,013,286.15
Plus: provision for asset impairment	4,784,452.76	59,463,721.45	61,766,725.18
Depreciation of fixed assets, depletion of oil and gas assets, and depreciation of productive biological assets	163,628,452.88	198,639,985.27	106,530,841.37
Amortization of intangible assets	4,280,185.45	5,486,586.13	4,481,132.76
Amortization of the Long-Term Unamortized Expenses	5,834,250.49	3,346,306.11	8,015,493.23

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

Supplementary Information	The Year of 2018	The Year of 2017	The Year of 2016
Losses of disposing fixed assets, intangible assets and other long-term assets (revenues marked with "-")	-31,915,792.37	561,663.89	1,726,673.69
Losses on the Retirement of Fixed Assets (Gains are Listed with the Sign"-")	-27,169.56	-	5,235.00
Losses on the Changes in the Fair Value (Gains are Listed with the Sign"-")		-	
Financial Expenses (Gains are Listed with the Sign"-")	50,326,165.68	75,938,988.90	16,063,714.95
Losses on Investments (Gains are Listed with the Sign"-")	-60,631,157.42	-57,416,853.38	-52,117,750.74
Reduction of the Deferred Tax Assets (Addition is Listed with the Sign"-")	-6,825,214.55	-14,871,233.45	-14,874,632.39
Addition of the Deferred Tax Liabilities (Reduction is Listed with the Sign"-")	3,717,324.37	-	
Reduction of the Stocks (Addition is Listed with the Sign"-")	-1,492,121,973.56	-386,437,144.37	-33,603,323.57
Reduction of the Operational Receivables (Addition is Listed with the Sign"-")	1,933,033,237.72	-716,869,850.81	-666,755,618.90
Addition of the Operational Payables (Reduction is Listed with the Sign"-")	-435,467,925.43	1,002,308,816.14	876,368,481.57
Others		-	
Net cash flow from operating activities	281,136,323.18	337,942,834.66	526,620,258.30
<b>2. Major investing and financing activities unrelated to cash receipts and expenditures:</b>			
Conversion of Debts Into Capitals			
Convertible Bonds Due within One Year			
Fixed assets acquired under finance leases			
<b>3. Net changes in cash and cash equivalents:</b>			
Closing cash balance	5,489,366,108.71	6,016,847,598.18	4,928,657,404.35

Supplementary Information	The Year of 2018	The Year of 2017	The Year of 2016
Less: opening cash balance	6,016,847,598.18	4,928,657,404.35	1,813,627,950.00
Plus: closing balance of cash equivalents			
Less: opening balance of cash equivalents			
Cash and Cash Equivalents	-527,481,489.47	1,088,190,193.83	3,115,029,454.35

## (2) Composition of cash and cash equivalents

Items	The Year of 2018	The Year of 2017	The Year of 2016
I. Cash	5,489,366,108.71	6,016,847,598.18	4,928,657,404.35
Including: cash in treasury	1,598,200.79	1,224,779.08	62,300.24
Bank deposits ready for payment	5,487,767,907.92	6,015,622,819.10	4,457,764,417.92
Other monetary assets ready for payment			470,830,686.19
II. Cash equivalents			
Including: bond investments due within three months			
III. Closing balance of cash and cash equivalents	5,489,366,108.71	6,016,847,598.18	4,928,657,404.35

## VII. Change in consolidation scope

## 1. Changes in consolidation scope for other reasons

Conditions of new subsidiaries established in this period:

Subsidiary name	Registration place	Registered capital (ten thousand Yuan)	Proportion of shareholding(%)		Acquisition mode
			Direct	Indirect	
Huaian Flavor Millennium (Jiangsu) Ecological Garden Development Co., Ltd.	Huai'an	5,000.00		70	Invest to establish
Jiangsu Huayang Hongshi Agricultural Science and Technology Development Co., Ltd.	Huai'an	5,000.00		55	Invest to establish
Huaian Huaiyin Time Culture Development Co., Ltd.	Huai'an	3,000.00		100	Invest to establish

## VIII. Equity in other entities

## 1. Interest in a subsidiary

## (1) Composition of corporate group

Subsidiary name	Main place of business	Registration place	Business nature	Proportion of shareholding(%)		Acquisition mode
				Direct	Indirect	
Huaian Huailiang Holdings Co., Ltd.	Huai'an	Huai'an	Technical development, cultivation, processing and sales of vegetables, melons and fruits, flowers, grains, seeds; technical development, processing and sales of grains and oils, condiments, nuts; food sales; breeding, processing and sales of aquatic products (non-state protected varieties), poultry and eggs (non-state protected varieties), livestock and by-products; technical development, production and sales of feed, biological fertilizers and microbial agents; development of garden and agricultural sightseeing tourism projects; catering services; design, production and launch of outdoor advertisements. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval of the relevant department)	100		Invest to establish
Jiangsu Hangeng Modern Agriculture Development Co., Ltd.	Huai'an	Huai'an	Technical development, planting, processing, wholesale and retail of crops such as vegetables, melons and fruits, flowers, grains and wheats, seeds, etc; food technology development, processing, wholesale and retail of grains and oils, condiments, nuts; breeding, processing, wholesale and retail of aquatic products (non-state protected varieties), poultry and eggs (non-state protected varieties), livestock and by-products; technical development, production, wholesale and retail of feed, biological fertilizers and microbial agents; garden,		100	Invest to establish

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

			agricultural sightseeing tourism development; catering services; technical development, production, processing, wholesale and retail of other products involving agriculture, forestry, animal husbandry, sideline-product and fishery (non-state protected varieties); design, production and launch of outdoor advertisements.			
Huai'an Ruitong Trading Co., Ltd.	Huai'an	Huai'an	Transportation engineering construction material supply; sales of construction materials, non-ferrous metals, office supplies, computer consumables, mechanical and electrical products; housing lease; design, production and launch of outdoor advertisements; sales of cotton textiles and raw materials, household appliances; wholesale and retail of chemical raw materials (except for chemical hazardous goods and precursor chemicals).		100	Invest to establish
Huai'an Transport Investment Co., Ltd.	Huai'an	Huai'an	Transportation infrastructure investment business; general machinery equipment, housing lease, wholesale and retail of construction machinery, hardware, electrical appliances & accessories, rubber products, natural rubber, daily necessities, construction materials; material storage, technical consulting services; concrete block, solid brick, hollow brick (non-clay) production and sales; technical development, cultivation, processing, wholesale and retail of vegetables, melons and fruits, flowers, grains and wheats, crops; food technology development, processing, wholesale and retail of grains and oils, condiments, nuts; breeding, processing, wholesale and retail of aquatic products, poultry, eggs, meat and by-products; fertilizer technology development, production, wholesale and retail; garden, agricultural sightseeing tourism development; catering services; design, production and launch of outdoor advertisements.		100	Invest to establish

<p>Huaian Flavor Millennium (Jiangsu) Ecological Garden Development Co., Ltd.</p>	<p>Huai'an</p>	<p>Huai'an</p>	<p>Development of ecological garden, agricultural leisure and sightseeing tourism projects and special town project; modern agricultural landscape planning and design consultation; transformation of agricultural scientific and technological achievements; property management; design and development of tourism products; greening services; agricultural production technology development and technical services; conference and exhibition services; primary processing services of agricultural products; enterprise planning and creative services; self-management and agency of import and export of various products and technologies (except goods and technologies that are operated by the company specified by the country or prohibited by the country from import or export); technological development, planting, processing and marketing of vegetables, fruits, flowers, grains and seeds; technological development and processing of grain and oil, condiments and nuts; marketing of food and primary agricultural products; breeding, processing and marketing of aquatic products (non-state-protected varieties), poultry and eggs (non-state-protected varieties), livestock and by-products; technical development and marketing of feed, biological fertilizers and fungicides; catering services; accommodation services; hotel management; real estate development and management; maintenance services for the elderly; design, production and publication of outdoor advertisements.</p>	<p>70</p>	<p>Invest to establish</p>

<p>Jiangsu Huayang Hongshi Agricultural Science and Technology Development Co., Ltd.</p>	<p>Huai'an</p>	<p>Huai'an</p>	<p>Development and technical service of agricultural production technology; socialization service of agricultural production; agricultural machinery and operation service; transaction and transformation of agricultural technology achievements; one-stop service of planning and design consulting, construction and technology of modern agricultural park; design and development of agricultural tourism and tourism products; greening service; conference and exhibition service; primary processing service of agricultural products; sales of primary agricultural products; enterprise planning and creative services; self-operation and agency of import and export of various commodities and technologies (except goods and technologies that are operated by the company specified by the country or prohibited by the country from import or export); development, planting, processing and marketing of planting technologies for vegetables, fruits, flowers, grains and seeds; technical development and processing of grain and oil, condiments and nuts; food marketing; wholesale and retail of agricultural and sideline products; breeding, processing and marketing of aquatic products (non-state protected varieties), poultry and eggs (non-state protected varieties) livestock and by-products; technology development and marketing of feed, fertilizer, biological fertilizer and fungicide; development of garden, agricultural sightseeing tourism project; catering services; design, production and publication of outdoor advertisement; storage and marketing of the grain.</p>	<p>55</p>	<p>Invest to establish</p>
<p>Huai'an Port Logistics Group Co., Ltd.</p>	<p>Huai'an</p>	<p>Huai'an</p>	<p>Port freight services; road cargo transport; waterway cargo transport; railway construction and operation; ship leasing services; sales of construction materials, hardware, steel, coal, home appliances. (For the projects subject to</p>	<p>100</p>	<p>Invest to establish</p>

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

				the approval according to law, the business activities must not be carried out without the approval the relevant department)		
Jiangsu Jiahuaotong Container Shipping Co., Ltd.	Huai'an	Huai'an	Huai'an	Provincial general cargo ship transportation on upstream and downstream mainline and tributary of Yangtze River, foreign trade container branch route liner shipping; container cleaning and repair services; waterway freight forwarding; ship rental service; cargo loading, unloading, handling services.	61.79	Invest to establish
Huai'an International Container Logistics Co., Ltd.	Huai'an	Huai'an	Huai'an	General freight forwarding of waterway, ship agent; provincial general cargo ship transportation on upstream and downstream mainline and tributary of Yangtze River; special cargo transport (container); general cargo storage; container transit; CFS vanning and devanning, intermodal services; transport service agent and transport information consulting; ship leasing; steel sales.	51	Invest to establish
Huai'an Suhuai Universal Wharf Co., Ltd.	Huai'an	Huai'an	Huai'an	R&D and sales of chemical products (excluding chemical hazardous goods and precursor chemicals); government-licensed land and other related asset management, transfer, investment, infrastructure construction; port operations (cargo loading and unloading, transfer, storage operation) ; road transport operation [ordinary freight, special cargo transport (container)]; waterway transport services [ship (freight) forwarding, cargo freight forwarding].	100	Invest to establish
Huai'an New Port Affairs Co., Ltd.	Huai'an	Huai'an	Huai'an	Port operations [cargo loading and unloading, transfer, warehousing operation]; road transport operations [ordinary freight, special cargo transport (containers)]; waterway transport services [ship (freight) forwarding, cargo freight forwarding]; sales of construction materials, hardware, home appliances; freight forwarding (agent), freight stowage (excluding international freight and air freight forwarding); cargo multimodal transport services.	94	Invest to establish

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Huai'an New Port Railway Co., Ltd.	Huai'an	Huai'an	Huai'an	Railway construction, railway operation; sales of special railway equipments, metal materials (excluding precious metals), construction materials, timbers, mineral products (except for state-specified varieties); warehousing services; loading, unloading and handling services; site leasing services; coal sales.	78.71	Invest to establish
Huai'an Transport & International Tally Co., Ltd.	Huai'an	Huai'an	Huai'an	Ship, air cargo and container tally of international and domestic route; container vanning and devanning tally; cargo metering and measurement; ship water-scale metering; vanning and devanning supervision; cargo damage, container damage inspection and appraisal; presenting tally document and tally report; tally information consultation. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)	100	Invest to establish
Huai'an Jianghuai Official Service Co., Ltd.	Huai'an	Huai'an	Huai'an	Auto lease, comprehensive public services for enterprises and institutions.	100	Invest to establish
Huai'an Urban Public Transport Co., Ltd.	Huai'an	Huai'an	Huai'an	Urban and suburb bus transport services; motor vehicle repair services (limited to auto repair shops); housing lease; advertising media lease; hardware, electrical appliances & accessories, auto parts sales. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)	100	Invest to establish
Huai'an Railway Investment Development Co., Ltd.	Huai'an	Huai'an	Huai'an	Railway construction investment; railway asset operation; development and arrangement of land resources along high-speed railway and railway areas; resettlement house construction; municipal infrastructure construction.	100	Invest to establish

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Huai'an Huaiyin Time Culture Development Co., Ltd.	Huai'an	Huai'an	Huai'an	Planning and organization of cultural and artistic exchange activities, and art show; artwork auction; conference and exhibition services; etiquette services; sports training; film and television program planning; enterprise planning; marketing planning; business information consulting services; market research; housing leasing and real estate intermediary services; billboard rental services.			
Huai'an Modern Tramway Operation Co., Ltd.	Huai'an	Huai'an	Huai'an	Rail transport operation management, protection, maintenance, service consulting; design, production, agency and launch of various advertisements; catering services; lease of vehicles, equipments, houses and sites.	70		Invest to establish
Jiangsu Modern Tram Training Service School Co., Ltd.	Huai'an	Huai'an	Huai'an	Tram driving, scheduling, crew, station, safety and emergency system training; tram repair and maintenance.		100	
Huai'an Traffic Holding & Property Co., Ltd.	Huai'an	Huai'an	Huai'an	Real estate development and operation; housing lease; real estate agency services.	100		Invest to establish
Huai'an Guohuai Property Service Co., Ltd.	Huai'an	Huai'an	Huai'an	Property management, cleaning services, housekeeping services, hotel management services, real estate agency services, conference and exhibition display services, parking lot management services (for items subject to legal approval, execute operating activities upon approval of relevant authorities)		100	Invest to establish
Huai'an Municipal Modern Tramway Co., Ltd.	Huai'an	Huai'an	Huai'an	Rail transport investment, construction, operation, service, consultation. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)	100		Business merger
Huai'an Modern Tramway Operation Co., Ltd.	Huai'an	Huai'an	Huai'an	Rail transport investment, construction, operation, service, consultation. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)		100	Business merger

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

<p>Huai'an Jianghuai Intelligent Travel Co., Ltd.</p>	<p>Huai'an</p>	<p>Huai'an</p>	<p>Software and information technology development, information technology services, information consulting services; network security services; IC card distribution and agency for public utilities and other industries (entrusted by issuing companies); IC card application system equipment design, development and technical services; design, launch, production, agency of advertisements, vehicle body advertisements, station advertisements. (For items subject to legal approval, execute operating activities upon approval of relevant authorities) sales via Internet; food, automobile and motorcycle accessories, flower seedlings, decorative materials, daily necessities, home appliances, electronic products, garments, apparels, artistic handicrafts, hardware tools, sporting goods, bags, shoes and hats, office supplies, cosmetics, primary edible agricultural products, sport goods, furniture, jewelry, gold &amp; silver products, timepieces; Internet information services; auto lease; real estate agency; computer hardware &amp; software, services, technical development, technical services, technical consulting, technical transfer of computer hardware &amp; software and network project; self-operation and agency of commodity and technology import and export businesses. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)</p>	<p>100</p>	<p>Invest to establish</p>
<p>Huai'an Transportation Tourism Group Co., Ltd.</p>	<p>Huai'an</p>	<p>Huai'an</p>	<p>Tourism project investment; parking lot services; retail of cigarettes and cigars (valid until February 22, 2015); the following scope is limited to branch operations: staff training in transportation system, accommodation services, swimming pools, catering services.</p>	<p>100</p>	<p>Invest to establish</p>

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Huai'an Hangan Xintiandi Travel Agency Co., Ltd.	Huai'an	Huai'an	Huai'an	Domestic tourism, conference and exhibition services.	49	51	Invest to establish
Huai'an Pulou Catering Management Co., Ltd.	Huai'an	Huai'an	Huai'an	Catering enterprise management, catering services. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)		100	Invest to establish
Huai'an Pulou Noodle Co., Ltd.	Huai'an	Huai'an	Huai'an	Catering services		100	Invest to establish
Huai'an Transportation Tourism Group & International Tourism Co., Ltd.	Huai'an	Huai'an	Huai'an	Domestic travel business; inbound travel business. General operating items: sales of tourism souvenirs; agent sales of air tickets, train tickets, bus tickets.		100	Invest to establish
Huai'an Transportation Tourism Group Hongze Lake Resort Co., Ltd.	Huai'an	Huai'an	Huai'an	Chinese cuisine production and sales; accommodation services; water tourism transport of Hongze Lake District; internal staff training; retail of general merchandises, garments, daily necessities, fishing tools, tobaccos.		100	Invest to establish
Huai'an Shuiyun Changhuai Hotel Management Co., Ltd.	Huai'an	Huai'an	Huai'an	Hotel management services; accommodation services; catering services; conference services; parking lot services. (For the projects subject to the approval according to law, the business activities must not be carried out without the approval the relevant department)		100	Invest to establish
Huai'an Public Transport Co., Ltd.	Huai'an	Huai'an	Huai'an	Urban and suburb bus operations; taxi passenger transport, inter-county shuttle bus passenger transport, type-1 vehicle maintenance (large and medium-sized passenger cars, small vehicles) (limited to auto repair shop operation); housing lease; advertising media lease in car bodies, cabins, stop signs, poles, bus	100		Invest to establish

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Huai'an Guanghui Electronic Technology Co., Ltd.	Huai'an	Huai'an	Huai'an	shelters; sales of steels, building materials, timbers, chemical raw materials (excluding chemical hazardous goods and precursor chemicals), hardware, electrical appliances & accessories, auto parts. Electronic technology R&D, transfer, service; sales of electronic products. (For items subject to special state approval in business scope, execute operation upon handling approval)	53	Invest to establish
Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd.	Huai'an	Huai'an	Huai'an	HDPE water supply pipes and fittings, PPR hot and cold water supply pipes and fittings, PEX, PERT hot and cold water supply pipes and fittings, MPP, HDPE, CPVC power jacketing pipes, HDPE solid wall, structural wall drainage pipes and ancillary manholes, HDPE gas pipe and fitting product manufacturing; sales of the company products and after-sales services; HVAC equipment sales, engineering design, construction and after-sales services; organic fertilizer sales and after-sales services.	100	Invest to establish
Jiangsu Jieda Traffic Engineering Group Co., Ltd.	Huai'an	Huai'an	Huai'an	General Contracting for Highway Engineering Construction Grade 1; General Contracting for Municipal Public Engineering Construction Grade 1; Professional Contracting for Bridge Construction Grade 1; Professional Contracting for Highway Pavement Construction Grade 1; Professional Contracting for Roadbed Construction Grade 1; General Contracting for Port and Waterway Engineering Construction Grade 2; Professional Contracting for Prefabricated Concrete Parts Grade 2; Professional Contracting for Highway Transport Engineering Non-graded; Highway Maintenance Engineering Construction Grade 2; Installation and Maintenance of Lifting Machinery (Grade A); Transport Construction Engineering Test and Inspection (Grade B); steel, timber.	51.08	Business merger

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

				automobile (excluding sedans), construction machinery, general merchandise sales; machinery, housing lease; concrete production and sales.			
Huai'an Civil Airport Co., Ltd.	Huai'an	Huai'an	Huai'an	Airport ground services (excluding those subject to special approval and license); civil aviation ticket agency services; air cargo transport agent and other air transport agency services; parking lot services (operation only after passing environmental protection inspection and acceptance); airport terminal site and advertising space lease; design, launch, production and agent of general advertisements.	99.76		Invest to establish
Huai'an Airport Tourism Service Industry Co., Ltd.	Huai'an	Huai'an	Huai'an	Domestic tourism business and inbound tourism business; air ticketing agency services, and aviation insurance agency sales; business information consultation (except information consultation of finance, securities and futures); conference and planning; agent hotel booking services; car rental services; hotel management services; development and sales of tourist souvenirs; development and management services of scenic spots; internet sales and sales of food, textiles, aquatic products, articles of daily use, stationery, clothing, shoes and hats, bags and suitcases, bath items, labor protective supplies, office supplies, electronic products, and tourist souvenirs; cigarette retailing; cargo handling services; transportation agency services.		99.76	Invest to establish
Huai'an Daily News Agency Tongda Outdoor Media Co., Ltd.	Huai'an	Huai'an	Huai'an	Agent design, production and launch of media advertisements, outdoor advertisements; decoration and upholstery services.	70		Invest to establish

2. Equity in joint ventures or associated enterprises

(1) Major joint ventures or associated enterprises

Name of joint ventures or associated enterprises	Main place of business	Registration place	Business nature	Proportion of shareholding(%)		Accounting method for investment of joint ventures or associated enterprises
				Direct	Indirect	
Huai'an Municipal Qingpu District Huize Rural Microfinance Co., Ltd.	Huai'an	Huai'an	Grant loans and provide financing security for "agriculture, rural areas and farmers", conduct financial institution business agency and other services.	30.00		Equity method
Huai'an Xin'ao Public Transportation & Clean Energy Co., Ltd.	Huai'an	Huai'an	Gas operation, CNG device installation and related equipment sales and maintenance, development and promotion of related technologies, natural gas station construction; advertising design, production and advertising space lease; automobile cleaning business, sales of auto parts and auto lubricants; retail of daily merchandises, wines, tobaccos, food, prepaid cards, hardware, electronic products, sales, testing and maintenance of gas equipment and gas appliances; site lease, housing lease, vehicle lease, construction machinery equipment lease, weighing services; mobile agency business; construction, operation and management of electric vehicle charging stations; entrusted agency of charging water and electricity fee.		35.00	Equity method

**IX. Related parties and related transactions**

**1. Parent company of the company**

Name of parent company	Shareholding ratio of parent company to the company (%)	Voting right ratio of parent company to the company (%)
Huai'an Municipal People's Government State-owned Asset Supervision and Administration Commission	100.00	100.00

Note: Ultimate controller of the company is Huai'an Municipal People's Government State-owned Asset Supervision and Administration Commission

**2. Subsidiaries of the company**

See Note VIII. 1. Equities in subsidiaries.

**X. Commitments and contingencies**

**1. Major commitments**

As of Monday, December 31, 2018, the company had no major commitment matter to disclose.

**2. Contingencies**

(I) As of Monday, December 31, 2018, total external guarantee for the company and its subsidiaries had amounted to RMB2,312,230,000, and details are as follows:

Guarantor units	Name of secured units	Guaranteed amount (RMB '0000)	Type of security
Huai'an Traffic Holdings Co., Ltd.	Huaian Highway Management Office	1,262.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Garden Investment Industry Co., Ltd.	30,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Garden Investment Industry Co., Ltd.	12,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Municipal Urban Development & Construction Co., Ltd.	100,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Garden Investment Industry Co., Ltd.	14,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huaian Finance Centre Investment Construction Co., Ltd.	15,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an New City Investment Development Co., Ltd.	40,000.00	Guarantee

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Huai'an Traffic Holdings Co., Ltd.	Huai'an New City Investment Development Co., Ltd.	20,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Flower and Seedling Development Management Co., Ltd.	12,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an City Water Holding Group Co., Ltd.	20,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an City Water Holding Group Co., Ltd.	30,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an City Water Holding Group Co., Ltd.	30,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Baima Lake Investment Development Co., Ltd.	10,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Development Holding Co., Ltd.	30,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Development Holding Co., Ltd.	20,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Development Holding Co., Ltd.	30,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Development Holding Co., Ltd.	48,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an Development Holding Co., Ltd.	50,000.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huaian Small and Medium Enterprise Investment Guarantee Co., Ltd.	6,820.00	Guarantee
Huai'an Traffic Holdings Co., Ltd.	Huai'an New City Investment Development Co., Ltd.	8,600.00	Guarantee
Total		527,682.00	

(II) As of Monday, December 31, 2018, asset pledge of the company and its subsidiaries:

Name of pledged assets	Pledgor	Pledgee	Amount (RMB ten thousand)	Limited Type
Jinghu Expressway Equity	Huai'an Traffic Holdings Co., Ltd.	Bank of China Limited	35,000.00	Pledge
Yongning Land	Huai'an Traffic Holdings Co., Ltd.	China Minsheng	3,000.00	Mortgage

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

Plot	Ltd.	Banking Corp. Ltd		
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	5,000.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	6,500.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	2,000.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	3,000.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	5,000.00	Pledge
Tramway Equity	Huai'an Traffic Holdings Co., Ltd.	Minsheng Royal Asset Management Co., Ltd.	60,000.00	Pledge
Tramway Equity	Huai'an Traffic Holdings Co., Ltd.	Minsheng Royal Asset Management Co., Ltd.	40,000.00	Pledge
Accounts receivable	Huai'an Traffic Holding & Property Co., Ltd.	China Development Bank Corp.	39,000.00	Pledge
Accounts receivable	Huai'an Traffic Holding & Property Co., Ltd.	China Development Bank Corp.	25,000.00	Pledge
Accounts receivable	Huai'an Traffic Holding & Property Co., Ltd.	China Development Bank Corp.	6,000.00	Pledge
Accounts receivable	Huai'an Traffic Holding & Property Co., Ltd.	Bank of Communications Co., Ltd.	10,800.00	Pledge
Accounts receivable	Huai'an Traffic Holding & Property Co., Ltd.	Agricultural Bank of China Limited	870.00	Pledge
Accounts receivable	Jiangsu Jieda Traffic Engineering Group Co., Ltd.	Jiangsu Huai'an Rural Commercial Bank Co., Ltd.	1,400.00	Pledge
Accounts receivable	Jiangsu Jieda Traffic Engineering Group Co., Ltd.	Jiangsu Huai'an Rural Commercial Bank Co., Ltd.	5,000.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	100.00	Pledge
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	11,750.00	Pledge
Accounts	Huai'an Traffic Holdings Co., Ltd.	China Development	10,000.00	Pledge

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

receivable	Ltd.	Bank Corp.		
Accounts receivable	Huai'an Traffic Holdings Co., Ltd.	China Development Bank Corp.	5,000.00	Pledge
Total			274,420.00	

**XI. Events after balance sheet date**

As of the approval date of this financial report, the group company had no major event after balance sheet date.

**XII. Other important matters**

With consent of the Huai'an Municipal People's Government, the Huai'an Municipal People's Government State-owned Asset Supervision and Administration Commission increased capital to the company on May 26, 2016 with municipal ship-lock, waterway, road, municipal transport business institution land, house and other assets, and the increased capital amounted to RMB12.928 billion. The company completed industrial and commercial change registration on July 19, 2016.

As of Monday, December 31, 2018, in this part of injected capitals, Grade-2 roads of 5.041 billion were public welfare assets.

**XIII. Notes for major items of the parent company's financial statements**

**1. Accounts receivable and notes receivable**

Items	Ending balance	Year-beginning balance
Bills receivable		
Accounts receivable	1,686,912,371.30	1,478,110,738.04
Total	1,686,912,371.30	1,478,110,738.04

(1) Accounts receivable

① Disclosure of receivable classification

Categories	Ending balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Account receivable with significant amount of single item and separate allowance for bad debts					
Account receivable with allowance for bad debts according to combination of credit risk characteristics	1,686,912,371.30	100.00			1,686,912,371.30
Of which: aging analysis					

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Categories	Ending balance				
	Book balance		Bad-debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
portfolio					
Other combinations	1,686,912,371.30	100.00			1,686,912,371.30
Account receivable with insignificant amount of single item but separate allowance for bad debts					
Total	1,686,912,371.30	100.00			1,686,912,371.30

(Continued)

Categories	Year-beginning balance				
	Book balance		Bad-debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion for withdrawing(%)	
Account receivable with significant amount of single item and separate allowance for bad debts					
Account receivable with allowance for bad debts according to combination of credit risk characteristics	1,478,110,738.04	100.00			1,478,110,738.04
Of which: aging analysis portfolio					
Other combinations	1,478,110,738.04	100.00			1,478,110,738.04
Account receivable with insignificant amount of single item but separate allowance for bad debts					
Total	1,478,110,738.04	100.00			1,478,110,738.04

② Top 5 closing balance of receivables by parties in arrears

Name of debtors	Closing balance of receivables	Proportion to total closing balance of receivables (%)	Closing balance of allowance for bad debts

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Name of debtors	Closing balance of receivables	Proportion to total closing balance of receivables (%)	Closing balance of allowance for bad debts
Huai'an Municipal Communication Bureau	1,672,912,371.30	99.17	-
Huai'an Municipal Waterway Administration Office	14,000,000.00	0.83	
Total	1,686,912,371.30	100.00	

**2. Other receivables**

Items	Ending balance	Year-beginning balance
Other receivables	7,964,500,260.87	7,825,292,416.91
Interests receivable		
Dividends receivable	457,000.00	457,000.00
Total	7,964,957,260.87	7,825,749,416.91

(1) Other receivables

① Disclosure of other receivable classification

Categories	Ending balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing (%)	
Other receivables with significant amount of single item and separate allowance for bad debts					
Other receivables with allowance for bad debts according to combination of credit risk characteristics	8,006,427,456.72	100.00	41,927,195.85	0.52	7,964,500,260.87
Of which: aging analysis portfolio	635,592,143.87	7.94	41,927,195.85	6.60	593,664,948.02
Other combinations	7,370,835,312.85	92.06		-	7,370,835,312.85
Other receivables with insignificant amount of single item but separate allowance for bad debts					

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Categories	Ending balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing (%)	
Total	8,006,427,456.72	100.00	41,927,195.85		7,964,500,260.87

(Continued)

Categories	Year-beginning balance				Book value
	Book balance		Bad-debt provision		
	Amount	Proportion (%)	Amount	Proportion for withdrawing (%)	
Other receivables with significant amount of single item and separate allowance for bad debts					
Other receivables with allowance for bad debts according to combination of credit risk characteristics	7,862,356,440.48	100.00	37,064,023.57	0.47	7,825,292,416.91
Of which: aging analysis portfolio	494,738,057.86	6.29	37,064,023.57	7.49	457,674,034.29
Other combinations	7,367,618,382.62	93.71			7,367,618,382.62
Other receivables with insignificant amount of single item but separate allowance for bad debts					
Total	7,862,356,440.48	100.00	37,064,023.57		7,825,292,416.91

In the portfolio, other receivables with allowance for bad debts according to aging analysis method

Aging	Ending balance		
	Other receivables	Bad-debt provision	Proportion for withdrawing (%)
Within 1 year	379,215,115.66	-	-
1 to 2 years	203,406,135.15	20,340,613.52	10.00

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Aging	Ending balance		
	Other receivables	Bad-debt provision	Proportion for withdrawing(%)
2-3 years	24,494,321.00	7,348,296.30	30.00
over 3 years	28,476,572.06	14,238,286.03	50.00
Total	635,592,143.87	41,927,195.85	

(Continued)

Aging	Year-beginning balance		
	Other receivables	Bad-debt provision	Proportion for withdrawing(%)
Within 1 year	106,003,401.10		
1 to 2 years	252,908,800.47	25,290,880.05	10.00
2-3 years	30,698,923.15	9,209,676.94	30.00
over 3 years	5,126,933.15	2,563,466.58	50.00
Total	394,738,057.86	37,064,023.57	

② Other receivables of the top five of the ending balance categorized by debtors

Name of company	The nature of payment	Ending balance	Aging	Proportion to total closing balance of other receivables (%)	Bad-debt provision Ending balance
Huai'an Municipal Communication Bureau	Intercourse funds	1,532,301,149.88	1-3 years	19.14	
Huai'an Traffic Holding & Property Co., Ltd.	Intercourse funds	1,054,143,132.00	1-3 years	13.17	
Huai'an Urban Public Transport Co., Ltd.	Intercourse funds	947,348,604.86	1-3 years	11.83	
Paid-in capital of Huaian Municipal Bureau of Finance	Intercourse funds	600,000,000.00	over 3 years	7.49	
Huai'an Civil Airport Co., Ltd.	Intercourse funds	387,142,111.28	1-2 years	4.84	
Total		4,520,934,998.02		56.47	

## 3. Long-term equity investment

## (1) Classification of long-term equity investment

Items	Ending balance			Year-beginning balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Investment in subsidiaries	3,730,836,810.29		3,730,836,810.29	3,510,373,008.22		3,510,373,008.22
Investment in associated enterprises and joint ventures	40,148,905.09		40,148,905.09	39,430,231.71		39,430,231.71
Total	3,770,985,715.38		3,770,985,715.38	3,549,803,239.93		3,549,803,239.93

## (2) Investment in subsidiaries

The invested entity	Year-beginning balance	Increase in the current period	Decrease in the current period	Ending balance	Accrued provision for impairment in current period	Closing balance of provision for impairment
Huai'an Jianghuai Intelligent Travel Co., Ltd.		1,000,000.00		1,000,000.00		
Jiangsu Ruijie Plastic Pipe Fitting Co., Ltd.	91,749,404.15	10,000,000.00		101,749,404.15		
Huai'an Hangen Xintiandi Travel Agency Co., Ltd.	245,000.00			245,000.00		
Huai'an Daily News Agency Tongda Media Co., Ltd.	8,300,000.00	520,000.00		8,820,000.00		
Huai'an Civil Airport Co., Ltd.	415,196,160.00			415,196,160.00		
Huai'an Transportation Tourism Group Co., Ltd.	29,444,135.60			29,444,135.60		
Huai'an Traffic Holding & Property Co., Ltd.	300,000,000.00			300,000,000.00		
Huai'an Railway Investment Development	616,796,697.00	200,000,000.00		816,796,697.00		

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Co., Ltd.					
Huai'an Modern Tramway Operation Co., Ltd.	70,000,000.00			70,000,000.00	
Huai'an Urban Public Transport Co., Ltd.	100,000,000.00			100,000,000.00	
Jiangsu Jieda Traffic Engineering Group Co., Ltd.	71,000,000.00			71,000,000.00	
Huai'an Jianghuai Official Service Co., Ltd.	5,000,000.00			5,000,000.00	
Huai'an Municipal Modern Tramway Co., Ltd.	1,374,284,400.47			1,374,284,400.47	
Huai'an City Grain and Oil Holding Co., Ltd.	91,056,197.93	8,943,802.07		100,000,000.00	
Huai'an Port Logistics Co., Ltd.	322,985,013.07			322,985,013.07	
Huai'an Public Transport Co., Ltd.	14,316,000.00			14,316,000.00	
Total	3,510,373,008.22	220,463,802.07		-3,730,836,810.29	

(3) Investment in associated enterprises and joint ventures

The invested entity	Year-beginning balance	Increases and decreases in current period				
		Additional investment	Investment reduction	Investment gains and losses affirmed under equity method	Other comprehensive income adjustment	Increase or decrease of other equities
1. joint ventures						
Huai'an Municipal Qingpu District Huize Rural Microfinance Co., Ltd.	39,430,231.71			2,017,673.38		
Sub-total	39,430,231.71			2,017,673.38		
2. associated enterprises						
Sub-total						

Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.

Total	39,430,231.71			2,017,673.38	
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(Continued)

The invested entity	Increases and decreases in current period			Ending balance	Closing balance of provision for impairment
	Declaration of cash dividends or profits	Withdrawing depreciation reserves	Others		
1. joint ventures					
Huai'an Municipal Qingpu District Huize Rural Microfinance Co., Ltd.	-1,299,000.00			40,148,905.09	
Sub-total	-1,299,000.00			40,148,905.09	
2. associated enterprises					
Sub-total					
Total	-1,299,000.00			40,148,905.09	

4. Operating income, operating costs

(1) Operating income and operating cost:

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Incomings	Cost	Incomings	Cost	Incomings	Cost
Main business	196,982,672.89	9,471,455.04	224,801,633.26	11,395,547.28	224,801,633.26	12,000,000.00
Other businesses	3,277,382.28		5,084,653.17	3,090,347.08	2,899,393.56	1,589,781.14
Total	200,260,055.17	9,471,455.04	229,886,286.43	14,485,894.36	227,701,026.82	13,589,781.14

(2) Main business income and main business cost by business category:

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Main business income	Main business cost	Main business income	Main business cost	Main business income	Main business cost
Management fee income	183,775,125.72	9,471,455.04	194,801,633.26	11,395,547.28	194,801,633.26	12,000,000.00
Channel gains	13,207,547.17		30,000,000.00		30,000,000.00	
Total	196,982,672.89	9,471,455.04	224,801,633.26	11,395,547.28	224,801,633.26	12,000,000.00

(3) Other business incomes and other business costs by business category:

Items	The Year of 2018		The Year of 2017		The Year of 2016	
	Other business	Other operating	Other business	Other operating	Other business	Other operating

*Notes to the 2016-2018 Annual Financial Statements of Huai'an Traffic Holdings Co., Ltd.*

	revenue	costs	revenue	costs	revenue	costs
Leasing business	3,277,382.28		5,084,653.17	3,090,347.08	2,899,393.56	1,589,781.14
Total	3,277,382.28		5,084,653.17	3,090,347.08	2,899,393.56	1,589,781.14

Huai'an Traffic Holdings Co., Ltd.

April 15, 2019

## ISSUER

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