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

(Incorporated under the laws of Cayman Islands with limited liability)
(Stock Code: 1378)

CLARIFICATION ANNOUNCEMENT

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Reference is made to the announcement of the Company dated 23 November 2016 in relation to the negative report published by a website http://hongqiaoexposed.com with unknown origins. This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to refute and/or clarify the key negative allegations in the Report and to rebut the attempt to undermine the confidence of the Company's shareholders in its business and financial condition.

As stated in the disclaimer of the Report, as of the publication date of the Report, the authors of the report have a short position in all stocks (and/or options, swaps, and other derivatives related to the stock) and bonds covered therein, and therefore stand to realize significant gains in the event that the price of either declines. The Report contains errors of fact, misleading statements and unfounded malicious accusations against the Company and its management which the Company believes are used in the Report with a view to undermining the Company's reputation, manipulating the price of the Company's shares and deliberately frustrating the functioning of the market and conducting malicious competition. The Company also notes that the Report contains speculation indicated by expressions such as "appear", "suggest", "assumption", "seem" and "likely", and groundless claims made by anonymous persons. Shareholders and potential investors are therefore reminded to exercise extreme caution when dealing in the securities of the Company. Shareholders and potential investors should also read this announcement carefully.

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The Company reserves its right to take legal actions for damages or other relief against the entity and/or associated individual(s) that published the Report and anyone responsible for disseminating misleading and malicious statements designed to manipulate the price of the Company's shares for their gains.

SUMMARY

The directors of the Company (the "**Directors**") are of the view that the allegations contained in the Report are untrue and unfounded. The Company notes that the Report contains speculation indicated by expressions such as "appear", "suggest", "assumption", "seem" and "likely", and groundless claims made by anonymous persons. These allegations are factually incorrect and in contravention to normal commercial logic.

The Company has strived for the best interest of the Company and its shareholders and the business of the Group has been developing in an orderly and healthy manner since the listing of the Company in 2011. The board of the Company (the "**Board**") endeavors to uphold strict internal control and risk management measures to safeguard the assets, and financial and reporting controls to promote reporting that is timely, materially accurate and in full compliance with the Listing Rules and other applicable laws and regulations.

REFUTATION OF ALLEGATIONS IN THE REPORT

The Company has carefully reviewed the Report. Set forth below are the responses by the Company to the allegations in the Report:

Allegation 1 of the Report: despite the Group's extraordinary margins, the Group has consistently failed to generate free cash flow and accumulated a massive debt load.

Company's response:

Such allegation is very misleading as it is taken out of the context of the development and expansion of the Group's business. It is normal for a company under rapid development and expansion to generate negative free cash flow. The Group conducts business in the aluminum-related industry, where significant investments are necessary for development and expansion. Deliberately highlighting only negative free cash flow and debt without linking them to the fast development of the Group indicates that the views contained in the Report are biased and intended to be misleading.

Since January 2016, the Group has been the largest aluminum product manufacturer in the world (*source: Antaike*). In the past few years, the business of the Group has expanded significantly. The aggregate designed annual production capacity of aluminum of the Group has increased by over three times from 1,776,000 tons as at 31 December 2011 to 5,886,000 tons as at 30 June 2016 and the aggregate designed annual production capacity of aluminum fabrication of the Group has increased by over 26 times from 30,000 tons as at 31 December 2011 to 790,000 tons as at 30 June 2016. The installed capacity of thermal power of the Group has also increased by over six times from 1,740 MW as at 31 December 2011 to 11,395 MW as at 30 June 2016.

With such rapid expansion, the revenue and the gross profits of the Group also increased significantly, from approximately RMB15,131.6 million and approximately RMB5,741.9 million in 2010 to approximately RMB44,109.9 million and approximately RMB8,951.4 million in 2015, representing increases of approximately 191.5% and 55.9%, respectively, as compared with the year of 2010.

Below is the table setting out the net cash flows from operating activities, capital expenditures and free cash flow of the Group:

	For the years ended 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net cash flows from operating activities	5,630,000	6,221,000	252,000	9,630,000	7,770,000
Capital expenditures [(1)]	(9,154,000)	(11,627,000)	(15,361,000)	(11,002,000)	(19,666,000)
Free cash flow	(3,562,000)	(6,088,000)	(15,664,000)	(2,459,000)	(11,869,000)

Note 1 Capital expenditures are calculated as the Group's additions of property, plant and equipment during the relevant period.

As shown in the table above, for each of the five years ended 31 December 2011, 2012, 2013, 2014 and 2015, the Group generated significant positive net cash flows from operating activities, which evidenced strong cash inflows from the Group's principal business operations.

During the five years ended 31 December 2015, the Group incurred significant capital expenditures in connection with its growth and expansion, primarily relating to the construction and acquisition of facilities for aluminum production and electricity generation.

The Directors believe that the Group's significant growth and the increase in its market shares in the global aluminum industry are attributable to its strategic investment in the five years ended 31 December 2015 to expand its capacity in order to capture market opportunities. Based on the public information available to the Group, the Directors understand that it is not uncommon for the Group's aluminum industry peers in the People's Republic of China (the "**PRC**") to record negative free cash flow even with a lower growth rate.

Allegation 2 of the Report: the Group's largest supplier is likely an undisclosed related party.

Company's response:

1. *Confirmation of Independence*

According to the information of State Administration for Industry and Commerce obtained by the Company, Binzhou Gaoxin Aluminum & Power Co., Ltd.* (濱州高新鋁電股份有限公司, "**Binzhou Gaoxin**") is an independent limited liability company that is ultimately controlled by State-owned Assets Operation and Management Center of Zouping Economic & Technological Development Zone* (鄒平經濟技術開發區國有資產運營管理中心, "**Zouping SAC**"). The Group has obtained a confirmation letter dated 5 December 2016 from Zouping SAC to confirm that Zouping SAC is a legal person of public institution* (事業法人) and is an independent third party to the Group. Zouping SAC mainly represents the People's Government of Zouping County in supervising the operation of state-owned assets in Zouping County. The allegation in the Report relating to Binzhou Gaoxin is purely speculation and intended to be misleading. In relation to Binzhou Gaoxin, the Company has made relevant disclosure in the prospectus of the Company dated 27 January 2011 (the "**Prospectus**"). The Directors confirm that the disclosure relating to Binzhou Gaoxin in the Prospectus was accurate and not misleading in any material aspect.

The Directors confirm that the disclosure relating to Binzhou Gaoxin in the Prospectus remained accurate and not misleading in any material aspect as of the latest practicable date other than the following: the change of its name from Zouping Gaoxin Aluminum & Power Co., Ltd.* (鄒平高新鋁電有限公司) to Binzhou Gaoxin Aluminum & Power Co., Ltd.* (濱州高新鋁電股份有限公司), the change of its ultimate beneficial owner from Labor Union Committee of Shandong Zouping Economic Development Zone* (山東鄒平經濟開發區機關工會委員會) to State-owned Assets Operation and Management Center of Zouping Economic & Technological Development Zone* (鄒平經濟技術開發區國有資產運營管理中心) and the change of its status from the sole alumina supplier of the Group to one of the Group's alumina suppliers (the Group started to procure alumina from other independent third parties from April 2011).

In addition, the Report contained a number of patently false allegations and contravened normal commercial logic, which further discredits the Report and casts doubt on the motives of its authors. The obvious factual errors in relation to Binzhou Gaoxin are detailed below.

2. *The proportions of the Group's electricity and alumina supplied by Binzhou Gaoxin*

The Report alleged that "up until September 2015, Binzhou Gaoxin still supplied 59.76% of the total electricity consumption and 65.6% of the total alumina used by China Hongqiao."

In fact, the proportions of the Group's electricity and alumina supplied by Binzhou Gaoxin as of September 2015 were only 16.31% and 32.1%, respectively, rather than 59.76% and 65.6% as stated in the Report.

The proportions of the Group's electricity and alumina supplied by Binzhou Gaoxin for the three years ended 31 December 2013, 2014 and 2015 and the eleven months ended 30 November 2016 are set out below:

	Year ended 31 December			**Eleven months ended 30 November**
	2013	**2014**	**2015**	**2016**
Electricity supplied by Binzhou Gaoxin	33.84%	27.75%	15.34%	14.98%
Alumina supplied by Binzhou Gaoxin	37.5%	39.6%	30.3%	19.46%

As disclosed in the Prospectus, the Group entered into an alumina supply agreement with Binzhou Gaoxin on 25 December 2009 (the "**Alumina Supply Agreement**"), which was renewable upon expiration. The Alumina Supply Agreement was last renewed under the same terms and conditions on 25 November 2015 for a term of three years from 1 January 2016 to 31 December 2018. The Directors confirm that since the Alumina Supply Agreement was renewed under the same terms and conditions, the pricing and discount mechanism on the alumina supplied by Binzhou Gaoxin remained the same as disclosed in the Prospectus. For the electricity supply agreement entered into with Binzhou Gaoxin, it still remains effective as at the date of this announcement and there is no change to the terms and conditions contained therein. Therefore, the pricing and discount mechanism on the electricity supplied by Binzhou Gaoxin remained the same as disclosed in the Prospectus.

The proportions of the Group's electricity and alumina supplied by Binzhou Gaoxin continued to decline over the past several years primarily because the Group's production capacity increased significantly and its requirements of electricity and alumina increased as well, and the Group used increased amounts of self-produced electricity and alumina for part of its production needs. The Directors confirm that the Group has not obtained or purchased electricity or alumina from any companies related to or associated with Binzhou Gaoxin.

3. *Binzhou Gaoxin Reported Loss in both 2014 and 2015*

Since Binzhou Gaoxin is not a public listed company, its financial statements for 2014 and 2015 are not accessible to the Company. The Company has no public information sources that can ascertain whether or why Binzhou Gaoxin reported loss in 2014 and 2015. However, based on the industry information available to the Company, it is not uncommon for alumina enterprises in the PRC to record loss under the market conditions of 2014 and 2015, during which the alumina prices in the PRC remained low and affected the financial positions of the alumina-related enterprises in 2014 and 2015 adversely.

4. *Business Scope of Binzhou Gaoxin*

The Report alleged that "internal usage only" indicates that Binzhou Gaoxin and the Group have an internal relationship. As confirmed by Binzhou Gaoxin, the "internal usage only" refers to the provision of heat and electricity to the enterprises located within Zouping Economic & Technological Development Zone* (鄒平經濟技術開發區). As a limited liability company ultimately controlled by Zouping SAC, Binzhou Gaoxin serves as a platform to provide heat and electricity to enterprises located in Zouping Economic & Technological Development Zone. Other than the sales to the Group, Binzhou Gaoxin also sells heat and/or electricity to other companies located in Zouping Economic & Technological Development Zone.

5. *Clarification of Contact Information of Binzhou Gaoxin*

The Report alleged that the address and contact information of Binzhou Gaoxin are the same as those of Binzhou Weiqiao Aluminum Industry Technology Co., Ltd.* (濱州魏橋鋁業科技有限公司, "**Binzhou Weiqiao**"), a wholly-owned subsidiary of Shandong Weiqiao Pioneering Group Company Limited* (山東魏橋創業集團有限公司, "**Weiqiao Pioneering**"). Weiqiao Pioneering is principally engaged in the production and sales of cotton, dyed yarn, printed and dyed cloth, knitwear and clothing. As at the date of this announcement, Mr. Zhang Shiping, the chairman of the Board and the controlling shareholder of the Company, directly and indirectly held approximately 31.59% equity interests in Weiqiao Pioneering. The Directors confirm that to the best of the Directors' knowledge, Weiqiao Pioneering is not engaged in any business which may be in competition with the business of the Group.

The Company notes that the addresses of the two companies as mentioned in the Report are Zouping Economic & Technological Development Zone. Zouping Economic & Technological Development Zone is not a specific address. Rather, it is a national economic development zone and covers approximately 18 square kilometers in area. Binzhou Gaoxin and Binzhou Weiqiao are located at different addresses in Zouping Economic & Technological Development Zone. Binzhou Gaoxin's street address is No. 4 Huixian Road, Zouping County, Binzhou, Shandong Province (山東省濱州市鄒平縣會仙四路). Binzhou Weiqiao's street address is No. 1 Qinghe Road, Zouping County, Binzhou, Shandong Province (山東省濱州市鄒平縣清河一路).

The Report further alleged that Binzhou Gaoxin's contact information (i.e. email address and phone number) is same as that of Binzhou Weiqiao. The Company has conducted Administration of Industry and Commerce ("**AIC**") searches and obtained confirmation from relevant AIC department that the email address and contact number of Binzhou Gaoxin's contact person as claimed in the Report are not correct.

6. *Issues of Bank Account*

The allegation in the Report relating to the bank account shows a lack of basic understanding of business practice in the PRC. Based on the legal advice from the PRC legal adviser of the Company, in the PRC, it is not allowed for two or more companies to share the same bank account.

Companies in the aluminum industry cluster in Zouping Economic & Technological Development Zone often cooperate in their business operations, such as in bidding for projects, with a view to enhancing bargaining power. By virtue of the widely-influential bidding platform of Weiqiao Pioneering, the Group and Binzhou Gaoxin utilize such platform to conduct joint bidding invitations from time to time. The information of bidding invitation as shown on the website included in the Report is incomplete, which resulted in possible confusion that two companies have the same bank account. The Directors believe this may have been deliberately utilized by the authors of the Report to make untrue allegations against the Group. All of the instances cited in the Report where Binzhou Gaoxin's bank account was used in the Group's bidding invitations were in fact joint bidding invitations by Binzhou Gaoxin and the Group or its affiliate. Even though Binzhou Gaoxin's bank account was listed in the bidding invitation as mentioned in the Report, such deposit bank account is only for purposes of demonstration of good faith in bidding participation and relevant deposits will be refunded to the tenders when they win or lose the bidding. Each of the successful tender will enter into relevant contracts separately.

Binzhou Gaoxin and the Group may conduct joint bidding invitations of waste materials and part equipment from time to time and on a random basis, mainly desulfuration gypsum and aluminum ash, through the widely-influential bidding platform of Weiqiao Pioneering since 2013. Based on further inquiries made to Binzhou Gaoxin, the Directors understand that:

(i) under each of the three joint bidding invitations dated 16 April 2016, 27 April 2016 and 7 October 2016, Binzhou Gaoxin, Zouping Hongfa Aluminum Technology Co., Ltd.* (鄒平宏發鋁業科技有限公司) (an indirect wholly-owned subsidiary of the Company) and Binzhou Municipal Zhengtong New Aluminum Profiles Co., Ltd.* (濱州市政通新型鋁材有限公司, "**Binzhou Zhengtong**") (an indirect wholly-owned subsidiary of the Company) selected different tenderers and entered into different aluminum ash contracts with them separately at different prices. The relevant successful tenderers of Zouping Hongfa Aluminum Technology Co., Ltd., Binzhou Zhengtong and Binzhou Gaoxin paid a contract deposit for execution and performance of the contract to the separate bank accounts of Zouping Hongfa Aluminum Technology Co., Ltd., Binzhou Zhengtong and Binzhou Gaoxin, respectively; and

(ii) under the joint bidding invitation dated 13 October 2016, Binzhou Gaoxin and Weiqiao Aluminum & Power Co., Ltd.* (山東魏橋鋁電有限公司, "**Weiqiao A & P**") (an indirect wholly-owned subsidiary of the Company) selected different tenderers and entered into different desulfuration gypsum supply contracts with them separately at different prices. The relevant successful tenderers of Weiqiao A & P and Binzhou Gaoxin further paid a contract deposit for execution and performance of the contract to the separate bank accounts of Weiqiao A & P and Binzhou Gaoxin, respectively.

7. *Issue of Guarantee*

In the PRC, it is a common practice for companies to be requested by relevant commercial banks to obtain third-parties' guarantees for bank loans as banks need more security for their loans if the borrower is not a public listed company. After having made reasonable enquiries to Weiqiao Pioneering, Weiqiao Pioneering's guarantee for Binzhou Gaoxin's bank borrowings was made based on the long-term stable commercial relationship and business trust between Weiqiao Pioneering and Binzhou Gaoxin.

8. *Issue of Indonesia Project*

The Report alleged that "the project of Shandong Binbei may be the same as Hongqiao's Well Harvest JV and Hongqiao may have double booked the spending."

The Group has made reasonable enquiries to Shandong Binbei New Materials Co., Ltd.* (山東濱北新材料有限公司, "**Shandong Binbei**") and understands that Shandong Binbei planned to launch an alumina business in West Kalimantan, Indonesia in 2012, and obtained the approval of the alumina project with designed annual production capacity of one million ton from the National Development and Reform Commission. After having made reasonable enquiries to Shandong Binbei, the Group understands that Shandong Binbei was faced with cash shortage problems and did not apply for relevant approval from the State Administration of Foreign Exchange and the Ministry of Commerce of the PRC, which was required for PRC companies to conduct foreign investment, and Shandong Binbei did not make any investment in such alumina project in Indonesia.

In 2012, the Group also planned to make an investment in West Kalimantan, Indonesia. On 27 December 2012, the Company entered into a joint venture agreement with Winning Investment, PT. Cita and PT. Danpac in respect of the joint venture company (the "**JV Company**") to be established for the operation of the alumina project with designed annual production capacity of two million ton (the "**Indonesia Project**"). Phase I of Indonesia Project with designed annual production capacity of one million ton has been constructed and put into operation in the first half of 2016.

The Directors confirm that the alumina project planned by Shandong Binbei and the Indonesia Project invested by the Group are not the same project.

9. *Issue of Mr. Liu Gang*

Based on the AIC information available to the Company and the confirmation obtained from Mr. Liu Gang (劉剛先生), Mr. Liu Gang served as the legal representative of Binzhou Gaoxin from January 2007 to September 2011. In September 2011, he ceased to act as the legal representative of Binzhou

Gaoxin in order to build his own aluminum related business with a view to capturing opportunities in the rapid development of aluminum related business in the cluster in Zouping County by leveraging his own industry experience and business contacts. The allegation in the Report that Mr. Liu Gang remained as the legal representative of Binzhou Gaoxin is factually wrong. Before joining our Group in 2014 as mentioned below, Mr. Liu Gang had not worked in the Group. The Report alleged that Mr. Liu Gang was the head of the procurement division of Weiqiao A & P. The Directors confirm that this allegation is without factual basis and Mr. Liu Gang did not act as the head of procurement department of Weiqiao A & P. As Mr. Liu Gang only joined the Group on 19 December 2014 as the legal representative of the JV Company, the statements made in the Prospectus that there was no management or director overlap between Binzhou Gaoxin and the Group, or between Binzhou Gaoxin and Weiqiao Pioneering, were accurate and complete at the relevant time.

Mr. Liu Gang has been appointed as the legal representative of the JV Company as Mr. Liu Gang has extensive experience in the aluminum industry and has a good command of English with an overseas study background. It would be too much of a strain on the time of the senior management of the Company to supervise the construction of the Indonesia Project and the Group does need a person who has relevant experience and can manage the Indonesia Project.

Allegation 3 of the Report: the Group has made two large and undisclosed related party transactions totaling more than RMB10 billion which may serve the purpose of laundering fake financial profits.

Company's response:

1. *Binzhou Binbei Transaction*

Reference is made to the announcement of the Company dated 22 December 2014 in relation to the acquisition of the 100% equity interest in Binzhou Municipal Binbei New Materials Co., Ltd.* (濱州市濱北新材料有限公司, "**Binzhou Binbei**") by Binzhou Zhengtong (an indirect wholly-owned subsidiary of the Company) as the purchaser, from Shandong Binbei, as the vendor ("**Binzhou Binbei Transaction**"). Shandong Binbei is a limited liability company established in the PRC on 30 June 2011 and is principally engaged in trading of bauxite and production and sales of aluminum products.

The Report alleged that Binzhou Binbei Transaction was a related party transaction. The Directors confirm that Shandong Binbei and its ultimate beneficial owners were and are independent third parties to the Group.

The Report alleged that Shandong Binbei was actually owned by Mr. Liu Gang at the time of Binzhou Binbei Transaction. Based on the AIC filings available to the Company, from June 2011 to June 2014, Shandong Binbei was ultimately controlled by Mr. Liu Gang only as to 50% and the remaining 50% was owned by two individuals who were independent to the Group. In June 2014, Mr. Liu Gang disposed of his equity interests in Shandong Binbei to one individual as in the first half of 2014 the price of aluminum consistently remained sluggish and the financial position of Shandong Binbei was not promising in Mr. Liu Gang's view. Binzhou Binbei Transaction was conducted in December 2014 when Mr. Liu Gang did not hold any shareholding interest or any management position in Shandong Binbei. In December 2014, Shandong Binbei was ultimately controlled by the same two independent individuals as mentioned above as to 75% and 25%, respectively.

The Report alleged that "the shareholder loan is not included in the purchase price." This allegation defies common commercial logic. With respect to acquisition of subsidiaries, it is a common practice in the PRC that the consideration is determined with reference to the valuation report of a target company but not the total assets of a company since the total assets of the a target company may also include loans. The aggregate consideration for such acquisition was RMB1,896,279,800, which was agreed by the parties upon with reference to the valuation report issued by Wanlong (Shanghai) Assets Valuation Company Limited* (萬隆(上海)資產評估有限公司), a professional independent third-party valuer with relevant valuation qualification. The valuation has already taken into consideration the assets status, including debts of Binzhou Binbei. Therefore, the consideration was fair and in the interest of the shareholders of the Group. The Company confirms that when determining the classification of the transaction type under the Listing Rules, the Company has taken into consideration of the total assets of Binzhou Binbei.

In addition, the Company would like to clarify that the relevant loan was not assumed by Binzhou Zhengtong and such loan remained in Binzhou Binbei. After the Binzhou Binbei Transaction, Binzhou Binbei borrowed RMB5,959,524,000 from Binzhou Zhengtong and then repaid its liabilities by itself. Such loan was recognized as account repayable in the financial statement of Binzhou Binbei and account receivable in the financial statement of Binzhou Zhengtong. As at the relevant time for the acquisition of Binzhou Binbei, the Group had more than RMB15 billion of cash and the financing cost of the Group was lower than that of Binzhou Binbei and Shandong Binbei. Therefore, Binzhou Binbei repaid such loan in order to save financing costs.

The Report used a meaningless calculation in determining the fairness of the acquisition prices. As disclosed in the announcement of the Company dated 22 December 2014, the assets of the Binzhou Binbei at the relevant time mainly comprise designed annual production capacity for aluminum products of 660,000 tons and the power generating units with the total installed capacity of 1,860 MW. As mentioned above, aluminum and power related projects require substantial capital investment, the Group would need to invest a similar amount if the Group were to conducted construction of such assets by itself instead of acquiring them through Binzhou Binbei. The Directors believe it is not meaningful to calculate the value of the assets using the revenue and profits of 2014 without taking into consideration the carrying value of these assets, synergies with the Group's existing business, and the growth potential of the industry. At the relevant time, the Group believed it was a good investment to acquire these assets and the operating results of these assets proved that the commercial judgment made by the Group was prudent.

Based on the management account of the Group, after the Binzhou Binbei Transaction, Binzhou Binbei, as the subsidiary of the Company, recorded profit of approximately RMB1,046,120,000 for the year ended 31 December 2015 and approximately RMB628,776,000 for the six months ended 30 June 2016. The Directors estimate that based on the profits for the first half year of 2016, the investment pay-back period of Binzhou Binbei Transaction would be approximately 5.37 years while these assets can be used for over 15 years as they were new assets when acquired.

The Directors confirm that the terms of such acquisition (including the consideration) are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

2. *Issues of Ms. Mu Chunling and Mr. Wang Jingkun*

As at the date of this announcement, Ms. Mu Chunling (牟春玲女士) concurrently served as the supervisor in Shandong Binbei and the supervisor of Binzhou Zhengtong, an indirect wholly-owned subsidiary of the Company. However, in the PRC, supervisors are not involved in the daily operation and management of a company. The role of a supervisor is an independent outsider providing oversight and advice to the management. Serving as a supervisor in two or more companies concurrently is common in the PRC. The Directors confirm that after having made reasonable inquiry to Ms. Mu Chunling, save as disclosed, as at the date of this announcement, Ms. Mu Chunling did not have any business or other relationship with Shandong Binbei and its associates. Given that the Group had a total number of around 58,000 employees, including around 3,000 management personnel as at 30 June 2016, the Group does not rule out the possibility that certain employees may hold other positions outside the Group, including independent directors or supervisors, without the Group's knowledge. The Group will and will provide suggestion to Weiqiao Pioneering, which has more than 100,000 employees and 6,000 management personnel, to require its relevant employees to notify the Group or Weiqiao Pioneering if they concurrently hold or intend to hold positions outside the Group or Weiqiao Pioneering and to obtain prior approval before holding such positions.

The Report alleged that Mr. Wang Jingkun (王景坤先生) is an employee of the Group. The Company does not know the source of this information. The Group confirms that Mr. Wang Jingkun has never been an employee of the Group. Mr. Wang Jingkun is an expert of new materials and has obtained relevant patents for new material application. As Mr. Wang Jingkun's expertise can be utilized in the Group's aluminum production, such as aluminum smelting, aluminum deep processing and waste recycling, he served as an independent consultant of the Group from December 2012 to April 2016.

After having made reasonable inquiry to Mr. Wang Jingkun, Mr. Wang Jingkun has served as the executive director and general manager of Weihai Haixin New Materials Co., Ltd.* (威海海鑫新材料有限公司), a wholly-owned subsidiary of Beihai Investment Limited (北海投資有限公司) (Shandong Binbei is also a wholly-owned subsidiary of Beihai Investment Limited), since August 2011 and Mr. Wang Jingkun also served as the director and the deputy general manager of Shandong Binbei from June 2011 to June 2014, and the deputy general manager of Shandong Binbei from June 2014 to June 2016. The Directors confirm that, as at the date of this announcement, save as disclosed above, Mr. Wang Jingkun did not have any business or other relationship with Shandong Binbei and its associates.

3. *CITIC Transaction*

Reference is made to the announcement of the Company dated 24 June 2016 in relation to the acquisition of 100% equity interest in Binzhou Municipal Beihai Xinhe New Materials Co., Ltd.* (濱州市北海信和新材料有限公司, "**BBX**") by Binzhou Beihai Huihong New Materials Co., Ltd.* (濱州北海匯宏新材料有限公司, "**Huihong New Materials**"), an indirect wholly-owned subsidiary of the Company, from CITIC Trust Co., Ltd.* (中信信託有限責任公司, "**CITIC**") (the "**CITIC Transaction**"). BBX is a limited liability company established in the PRC on 24 August 2011, and is mainly engaged in the production and sales of alumina.

As disclosed in the announcement of the Company dated 24 June 2016, as at 31 December 2015, the appraised total assets of BBX amounted to approximately RMB7,271,083,000; net assets amounted to approximately RMB2,186,108,200; total liabilities amounted to approximately RMB5,084,975,000. The total consideration was RMB2,120,000,000, which was agreed upon by Huihong New Materials and CITIC after arm's length negotiations with reference to the valuation report issued by an independent valuer on the appraisal value of the 100% equity interests in BBX as at 31 December 2015, which amounted to approximately RMB2,186,108,200. The valuation has already taken into consideration the assets status, including debts of BBX.

The Directors are of the view that the terms of such equity acquisition agreement (including the consideration) are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

On 24 June 2016, Huihong New Materials acquired the 100% equity interest in BBX from CITIC. The Group made the decision to acquire the 100% equity interest in BBX because:

(i) the Group's demand for alumina increased significantly as the aluminum production capacity increased;

(ii) the market price of alumina increased in the first half of 2016 and the Group expected that the market price of alumina would further increase in the second half of 2016. The average spot prices of alumina from 2015 to 2016 in Shandong Province are set out below:

	May 2015	**December 2015**	**June 2016**	**October 2016**
Average spot price of alumina	RMB2,516 per ton	RMB1,663 per ton	RMB1,960 per ton	RMB2,539 per ton

(iii) given that alumina and electricity are the important components of the production costs of the Group's aluminum products, through the CITIC Transaction, the self-sufficiency ratios of alumina of the Group can be further enhanced, and through that, the competitiveness and profitability of the Group can be further promoted.

The Report alleged that the CITIC Transaction appears to be a back to back transaction in order to disguise former ownership by Shandong Binbei.

Such allegation is the speculation of the authors of the Report without any factual basis. CITIC is a State-owned company and an independent third party to the Group. As a State-owned company, CITIC's business decisions for its acquisition of BBX and operation of BBX after such acquisition were independently made based on its own business judgment and principles and subject to relevant approval process. The Directors confirm that the Group did not participate in the acquisition of BBX by CITIC. During the process of the CITIC Transaction, relevant senior management of the Group understood that the former shareholder of BBX was Shandong Binbei but as confirmed by CITIC and as advised by the Group's PRC legal adviser, CITIC was the legal owner of BBX and Shandong Binbei did not get involved during the process of the CITIC Transaction. Therefore, the CITIC Transaction was not a back to back transaction.

The CITIC Transaction has been duly disclosed in the announcement of the Company dated 24 June 2016.

Allegation 4 of the Report: the Group has significant environmental issues that are currently being investigated by the Chinese Government.

Company's response:

1. *The Group's Environmental Issues*

In respect of the environmental issue of the Group, the Company would like to point out that the Report does not give a full description of the relevant governmental policies but only mention the information available on the Internet with an intention to mislead readers. A fair view of the Group's environmental protection measures can only be formed by taking into consideration of the whole policy background and the efforts made by the Group.

To impose more strict environmental protection policies and complete relevant environmental filing or approvals procedures which were not completed due to previous policy issues or other reasons, the People's Government of Shandong Province ("**Shandong Government**") issued the Shandong Province Working Plan of Rectifying Environmental Protection Illegal Construction Projects* (山東省清理整頓環保違規建設項目工作方案) on 10 August 2015 (the "**Working Plan**"). According to the Working Plan, Shandong Government identified a total of 7,019 projects in Shandong Province with a view to rectifying historical environmental issues faced by relevant enterprises (the "**Rectification Action**"). Against such background, Zouping Environmental Protection Bureau* (鄒平縣環境保護局) listed certain projects that need to complete relevant environmental procedures.

The Company has obtained the written confirmation from Shandong Province Environmental Protection Bureau* (山東省環境保護廳) on 24 November 2016 (the "**Shandong Confirmation Letter**") confirming that:

(i) the 25 projects involved in the Rectification Action of Shandong Hongqiao New Materials Co., Ltd.* (山東宏橋新型材料有限公司, "**Shandong Hongqiao**") and its subsidiaries have been operated in accordance with industry policies and satisfied the requirements of environmental management;

(ii) Shandong Hongqiao has applied for environmental impact assessment approvals for projects under construction and environmental filings for completed projects; and

(iii) there is no legal obstacle for the completion of the relevant filing and/or approvals of all the 25 projects by the end of December 2016.

As advised by the PRC legal adviser of the Company, Shandong Province Environmental Protection Bureau is the superior supervisory authority of Binzhou City Environmental Protection Bureau (濱州市環境保護局) and Zouping County Environmental Protection Bureau and since it is the highest government authority on environmental protection in Shandong Province, it is a competent authority to issue such confirmation.

The Directors confirm that the penalty and suspension orders reported in the South China Morning Post as mentioned in the Report are out of the context of the environmental policies in Shandong Province and the Company's business and operation have not been affected by any penalty or suspension orders since the main purpose of these environmental policies was to rectifying historical environmental issues faced by relevant enterprises. The 25 projects mentioned in the Shandong Confirmation Letter have covered such orders mentioned in the Report except for the order to Zouping County Hongzheng New Materials Technology Co., Ltd.* (鄒平縣宏正新材料科技有限公司) dated 30 August 2016 in relation to the aluminum project with annual projection capacity of 1.32 million tons ("**Zouping Hongzheng Project**"), a project planned by the Group after the issue of the Working Plan. With respect to Zouping Hongzheng Project, the Company has obtained a separate written confirmation from Zouping County Environmental Protection Bureau on 7 December 2016, confirming that Zouping County Hongzheng New Materials Technology Co., Ltd. has applied for environmental protection filings according to the Working Plan and such environmental filing is in progress in accordance with laws and regulations.

The Directors confirm that due to the Group's endeavor towards environmental protection, the business and operation of the Group have not been adversely affected by the Working Plan as at the date of this announcement and there is no legal obstacle for the completion of the relevant filing and/or approvals of all the 25 projects by the end of December 2016.

The Group has been adhering to the improvement of environmental protection standards and the Group invested approximately RMB1,229,000,000 in the improvement of environmental protection for the ten months ended 31 October 2016. Shandong Hongqiao, a wholly-owned subsidiary of the Company, has consistently been awarded the Environmental Management System Authentication Certificate* (環境管理體系認證證書) by China Quality Certification Centre* (中國質量認證中心) since 8 April 2010.

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

During the power generation process, a power plant discharges sewage, emits air pollutants, such as sulfur dioxide, and produces noise. The Group has installed de-dusting and desulphurization and denitrification equipment in its power station to reduce the emission of air pollutants. The Group has also installed water recycling and treatment equipment to minimize the impact of sewage on the environment. The Group's power stations have obtained the required approvals from, and have satisfied the emission requirements provided by, local governments. In addition, the Group has installed sound insulation equipment to reduce the impact of the noise produced in the daily operations of the power stations.

During the manufacturing process of aluminum products, the Group's production facilities discharge sewage, emit air pollutants and produce noise. The Group has installed de-dusting equipment for the manufacturing facilities to minimize industrial waste.

In addition, the Group recycles and reuses aluminum scraps generated during the production process. The Group has improved the energy-efficiency by applying new production techniques and optimizing its production process.

As at the date of this announcement, the comparison between the regulated emission standards and the emission volume of the Group is set out below:

		Emission Standards *(mg/m^3)*	**Emission Volume of the Group** *(mg/m^3)*
Thermal power industry [1]	smoke dust	30	0.9
	sulfur dioxide	200	12
	nitric oxide	100	30
Electrolytic aluminum industry [2]	particular matter	20	5.2
	sulfur dioxide	200	138
	fluoride	3	1.77
Alumina industry [3]	particular matter	50	36.2
	sulfur dioxide	400	10

Note 1: The effective emission standards in the thermal power industry are prescribed in the Emission Standard of Air Pollutants for Thermal Power Plants (火電廠大氣污染物排放標準) (GB13223-2011) issued by the Environmental Bureau of the PRC and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and implemented in January 2012.

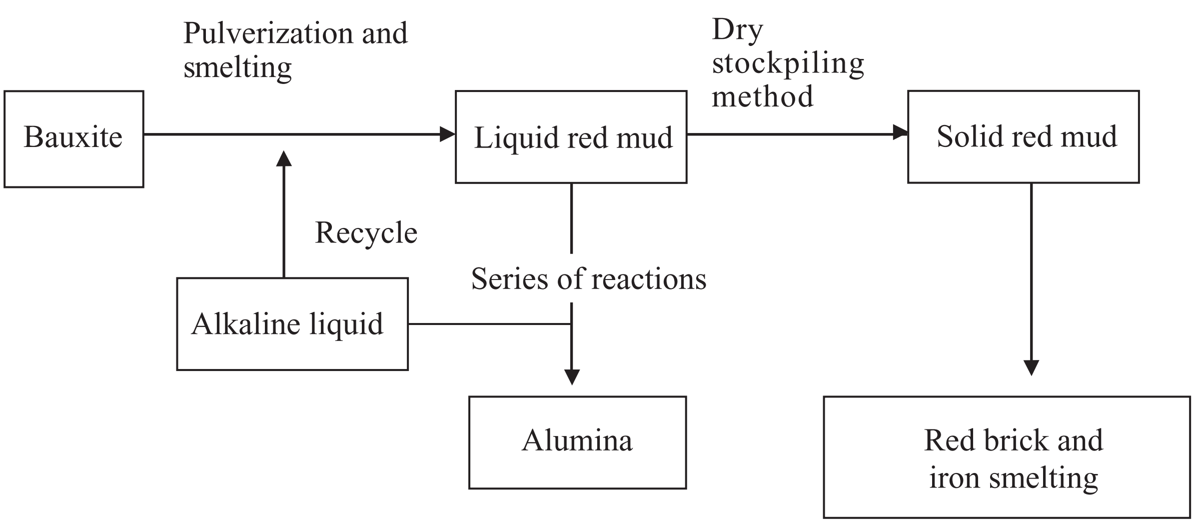
Note 2: The effective emission standards in the electrolytic aluminum industry are prescribed in Emission Standard of Pollutants for Aluminum Industry (鋁工業污染排放標準) (GB 25465-2010) issued by the Environmental Bureau of the PRC and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and implemented in October 2010.

Note 3: The effective emission standards in the alumina industry are prescribed in Emission Standard of Pollutants for Aluminum Industry (鋁工業污染排放標準) (GB 25465-2010) issued by the Environmental Bureau of the PRC and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and implemented in October 2010.

Based on above, the Group operates with ultra-low emission in full compliance with relevant environmental laws and regulations. Therefore, the allegation in the Report has no substance and is not accurate.

2. *The Group's "red mud" fields do not pose major contamination risk to neighboring areas*

The red mud in the relevant fields of the Group specified in the Report is in solid state and does not pose any major contamination risk to neighboring areas. There are grasses and trees in the neighboring areas, which indicates that the alumina production is not toxic. The alumina production of the Group adopts dry stockpiling method (乾法堆存) and the production process is set out below:



As shown in the flow chart above, the by-product alkaline liquid is recycled and the whole production process does not pose any major contamination risk to neighboring areas.

As disclosed in the Prospectus, the Directors confirmed that no red mud or other similar pollutant was discharged during the Group's aluminum production process. However, as the Group has been producing alumina by itself since 2012, the Group's alumina production creates red mud.

The Directors confirm that as at the date of this announcement, save as disclosed herein, the disclosure relating to red mud in the Prospectus is still accurate and not misleading in any material aspect, and the Group is in compliance with relevant laws and regulations relating to red mud.

3. *Environmental issues of the Loften Acquisition*

Reference is made to the announcement of the Company dated 15 August 2016 in relation to the share transfer agreement entered into between Shandong Hongqiao, a wholly-owned subsidiary of the Company, and Mr. Yu Rongqiang (于榮強先生) (the "**Loften Share Transfer Agreement**"). Pursuant to the Loften Share Transfer Agreement, Shandong Hongqiao agreed to acquire 261,096,605 shares of Loften Environmental Technology Co., Ltd.* (魯豐環保科技股份有限公司, "**Loften Environmental**") from Mr. Yu Rongqiang, representing an approximately 28.18% equity interest in the Loften Environmental (the "**Loften Acquisition**"). Loften Environmental is a joint stock company incorporated in the PRC with limited liability whose shares are listed on Shenzhen Stock Exchange (stock code: 002379).

As disclosed in the announcement of the Company dated 27 September 2016, Shandong Province Boxing County Environmental Protection Bureau* (山東省博興縣環境保護局) issued a prior notice letter of administrative punishment to Loften Environmental on 18 September 2016 in relation to its construction and operation of the intermediate frequency furnace construction project* (中頻爐建設項目) without approval of environmental impact assessment documents by relevant environmental protection authority (the "**Illegal Event**").

As disclosed in the announcement of the Company dated 13 November 2016, after review of the due diligence opinion of the professional institution, the Directors tentatively believed that the Illegal Event would not have any material adverse effect on the production and management of Loften Environmental nor would constitute a material legal obstacle for the performance of the Loften Share Transfer Agreement.

The Company will prudently proceed with the Loften Acquisition in line with the interests of the shareholders of the Company. The Company will promptly announce any further progress if necessary. The Loften Acquisition is subject to the satisfaction of all conditions precedent and approvals from relevant authorities. Therefore, the Loften Acquisition may or may not materialize.

Allegation 5 of the Report: the Group's valuation implies little to no equity value due to its large debt load.

Company's response:

The re-evaluation of the Group's equity value in the Report was based on wrong assumptions and the Directors are of the view that such re-evaluation is incorrect and do not rule out the possibility that the authors of the Report intended to frustrate the market and conduct malicious competition.

The Report assumed the Group's true underlying margins are lower and assumed the Group's margins to the 6.6% EBIT margins of its best performing peer.

The Group's gross profit margin for the five years ended 31 December 2015 is set out below:

	For the years ended 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
Gross profit margin (%)	34.6	32.3	27.7	25.8	20.3

Such high gross profit margin of the Group is mainly attributable to the Group's endeavor to control unit production cost of aluminum products by the following methods:

(i) the Group has its own integrated power grid, which reduces the cost of electricity;

(ii) by virtue of the geographical advantage of the aluminum industry cluster in Zouping Economic & Technological Development Zone, the Group can provide products in liquid aluminum instead of aluminum ingot to its downstream customers, which saves the cost of casting and carriage;

(iii) the Group has foreign procurement source of alumina and bauxite with lower price than domestic;

(iv) the Group has strong bargaining power in procurement of bauxite and can procure bauxite at a lower price than other peer companies;

(v) the Group has advanced facilities for aluminum production and electricity generation to ensure the operation efficiency of the Group, such as the first whole series 600kA primary aluminum production line (全系列600kA原鋁生產線) in the world;

(vi) the Group has made great efforts on technology innovation including optimization of carbon anode and electrolyte in electrolytic aluminum, upgrade of electrolytic cell, and improvement of automation level, etc; and

(vii) the Group has increased the proportions of self-supply power and self-supply alumina by ways of investment in electricity generation plants and alumina production facilities. As at 30 June 2016, the proportions of self-supply power and self-supply alumina reached 86.07% (83.69% as at 30 September 2015) and 63.20% (56.75% as at 30 September 2015), respectively.

Such cost control mechanism is the key for the Group's competitiveness over other peer companies in the aluminum industry. Assuming the Group's margins to be other peer company's margins is unreasonable as companies in the aluminum industry may have different business strategies and business operation conditions.

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

Shandong, the PRC
20 December 2016

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

* *For identification purpose only*