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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
CLARIFICATION ON THE SECOND 2017 NEGATIVE REPORT

This announcement is made by China Hongqiao Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to refute and/or clarify the allegations in the Second 2017 Negative Report.

Reference is made to the announcements of the Company (the “**Previous Clarification Announcements**”) dated 25 October 2017 and 30 October 2017, in relation to the refutation and/or clarifications made by the Company against the allegations contained in the First 2017 Negative Report and the Second 2017 Negative Report. Unless the context indicates otherwise, capitalized terms used but not otherwise defined herein shall have the same meanings as ascribed to them in the Previous Clarification Announcements.

The Directors are convinced that the allegations contained in the Second 2017 Negative Report (the “**Allegations**”) are misleading, untrue and unfounded. Set out below is the detailed clarification and/or refutation to the Allegations.

1. Production cost of electricity (including cost of steam) still significantly below peers’ average

The Second 2017 Negative Report alleged, among other things, that the Group’s costs of electricity production (including the cost of steam) from 2012 to 2015 were still considerably lower than those of leading Chinese independent power producers.

The Directors confirm that the Group’s costs of electricity production from 2010 to 2015 were true and accurate. The advantages of the Group’s cost of electricity production have been disclosed in the Previous Clarification Announcements. The Group’s costs of electricity production from 2010 to 2015 have also been verified by BT Risk Assurance and the AUP Findings have demonstrated that the Group’s costs of electricity production from 2010 to 2015 were true and accurate.

2. World's most advanced generators have been "created"

The Second 2017 Negative Report also alleged that it would be inconceivable that the power supply standard coal consumption of Weiqiao A&P from 2012 to 2015 could achieve 21% lower than that of the leading independent power producers.

The power plants of the Group are heat and power combined units (熱電聯產機組), including extraction-type heat and power combined units (抽凝式熱電聯產機組) and back-pressure type heat and power combined units (背壓式熱電聯產機組), which can generate electricity and steam simultaneously, while, to the best knowledge of the Company, the power generation companies are equipped only or mainly with condensing units (純凝機組), which cannot produce steam externally during the electricity production process. Heat and power combined units have the characteristics of improving energy efficiency and reducing pollutant emissions, which are the method of electricity production promoted by the Chinese government. According to the information from the relevant website of the National Energy Administration (國家能源局) of the PRC (http://www.nea.gov.cn/2016-04/18/c_135289349.htm), the designed power supply standard coal consumption of the back-pressure type heat and power combined units is generally 110g/kWh lower than that of the condensing units, and the designed power supply standard coal consumption of the extraction-type heat and power combined units is generally 40g/kWh lower than that of the condensing units. Besides the energy-saving characteristics of the combined heat and power units, the Group has also implemented various technical measures to reduce its coal consumption. As such, the Directors are of the view that the condensing units used by the power generation companies selected in the Second 2017 Negative Report were not comparable to the Group's heat and power combined units and the figures of the power supply raw coal consumption disclosed in the Previous Clarification Announcements were true and accurate. Moreover, pursuant to the 13th Five-Year Plan (from 2016 to 2020) for Energy Development (能源發展「十三五」規劃) promulgated by the National Development and Reform Commission (國家發改委) and the National Energy Administration in December 2016, the power supply standard coal consumption of newly established coal-fired units is required to be controlled at levels below 300g/kWh. As mentioned above, the power supply standard coal consumption of the heat and power combined units used by the Company is generally at least 40g/kWh or 110g/kWh lower than that of the condensing units. The power supply standard coal consumption of the Group mentioned in the Second 2017 Negative Report (i.e. ranging from 230g/kWh to 254g/kWh) exactly proves that the Group's power supply standard coal consumption is within a normal range, which sufficiently demonstrates the misleading nature of the Second 2017 Negative Report and mistakes contained therein.

The Second 2017 Negative Report further alleged that it would be impossible that the Group's power supply raw coal consumption declined by 18% from 2009 to 2010 based on the reasons hypothesized by Emerson.

The Group's power supply raw coal consumption for the year ended 31 December 2009 and 2010 was 365.25 g/kWh and 300.00 g/kWh, respectively. The decrease in the Group's power supply raw coal consumption for the year of 2010 was mainly attributable to the following:

- (i) as a measure to save energy consumption, the Group had recycled and utilized high-temperature condensed water (高溫凝結水) as the filled water used in connection with its electricity generation process since 2010 through connected pipelines constructed at the end of 2009. Such high-temperature condensed water was an industrial by-product made by recycling and condensing high-temperature steam through a technological process, which can be utilized in the Group's electricity generation process. This created significant savings for the Group as it reduced the amount of coal needed for heating filled water to a high temperature in connection with electricity generation.
- (ii) as the average load rate of the Group's power plants for the year of 2010 was approximately 85% and the Group's utilization hours of its power plants in 2010 was relatively high (i.e. 7,846 hours), which means that these power plants operated at a more economical load range (經濟負荷範圍) in 2010. This reduced the power supply raw coal consumption by the Group. Relevant disclosure relating to the Group's utilization hours of its power plants has been made in the Previous Clarification Announcements.
- (iii) the Group has also made numerous technological improvements since 2010, including, among others, addressing operational problems of the generator units in order to reduce the start-up and shut-down times, improving the aspiration method (進汽方式) of steam turbines, enhancing the vacuum system management in order to reduce the leakage volume of the power plant vacuum systems, and improving the skills of the Group's technical staff through training and additional technical simulation practices.

In addition, as disclosed in the Previous Clarification Announcements, BT Risk Assurance has performed appropriate and sufficient Agreed-upon Procedures with respect to coal consumption and did not find any anomalies.

3. How much steam do you need to make up a cost of Rmb0.08/kWh?

The Second 2017 Negative Report alleged that the cost of steam cannot make up the cost of RMB0.08/kWh in 2009. However, the Group's unit cost of steam for the year ended 31 December 2009 was RMB119 per ton instead of RMB74 per ton as deduced by the Second 2017 Negative Report and the total cost of steam recorded in the cost of electricity for the year ended 31 December 2009 was approximately RMB251 million instead of RMB264 million as deduced by the Second 2017 Negative Report. The Company confirms that the impact of the cost of steam on the cost of electricity for the year ended 31 December 2009 was approximately RMB0.08 per kWh, which was a result of rounding up from RMB0.079 per kWh instead of rounding down from RMB0.084 per kWh as alleged in the Second 2017 Negative Report. Relevant figures of the Group's sales volume and cost with respect to steam are set out below:

**For the year ended
31 December 2009**

Unit cost of steam (<i>RMB/ton</i>)	119
Total cost of steam recorded in the cost of electricity (<i>RMB</i>) ¹	251,333,000
Sales volume of steam to Weiqiao Chuangye (<i>ton</i>)	2,104,000
Sales volume of steam to other customers (<i>ton</i>) ²	1,473,000
Impact of the cost of steam on the cost of electricity (<i>RMB/kWh</i>) ³	0.08

Notes:

1. As disclosed on page 136 of the Prospectus, the Company provided steam to Weiqiao Chuangye free of charge before 2010 and hence, the cost of steam was recorded in the cost of electricity for the year ended 31 December 2009 instead of being listed as a separate line item in the Company's cost of sales in its consolidated financial statements. Such cost of steam recorded in the Group's cost of electricity for the year ended 31 December 2009 was RMB251,333,000, which includes the cost of coal as well as the cost of other miscellaneous items, such as labor, depreciation and amortization and repair and maintenance. The Group provided 2,104,000 tons of steam free of charge to Weiqiao Chuangye in 2009, which resulted in a unit cost of steam of approximately RMB119/ton.
2. As disclosed in the Prospectus, Weiqiao A&P and Weiqiao Chuangye entered into an agency agreement on 25 May 2006, pursuant to which Weiqiao A&P agreed to operate the business of alumina production owned by Weiqiao Chuangye (the "**Alumina Agency Business**") on behalf of Weiqiao Chuangye for the period from 26 May 2006 to 31 December 2009. The alumina production facilities were equipped with an auxiliary steam station during the construction. A portion of the steam generated by such auxiliary steam station was used for the alumina production facilities and the remaining portion of the steam generated by such auxiliary steam station was sold externally. The Alumina Agency Business has been disclosed as discontinued operations in the Prospectus. For further details, please refer to the section headed "Business – Discontinued Operations – Alumina Agency Business" on page 163 of the Prospectus.

In 2009, besides 2,104,000 tons of steam that were provided to Weiqiao Chuangye free of charge, the Group also sold the remaining 1,473,000 tons of steam externally to other customers at a unit price ranging from RMB95/ton (VAT inclusive) to RMB150/ton (VAT inclusive) (the "**Steam Sales Business**"). The revenue from the Steam Sales Business accounted for an insignificant portion of the total revenue of the Group in 2009. During the preparation for the listing of the Company, considering the timetable of listing of the Company at that time and based on the prudent and conservative accounting principles applied in connection therewith, the Steam Sales Business was segregated in the same manner as the Alumina Agency Business due to the inability to accurately and precisely split the revenue of the external sales of steam generated from the auxiliary steam station and the revenue generated from the Steam Sales Business in a short-period time. Accordingly, the revenue and cost relating to the Steam Sales Business did not form a part of the Group's audited financial statements disclosed in the Prospectus.

3. The impact of the cost of steam on the Group's cost of electricity for the year ended 31 December 2009 was approximately RMB0.08 per kWh, which equals to the cost of steam recorded in the cost of electricity for the year, i.e. RMB251,333,000, divided by the amount of power generated for the same year, i.e. 3,134,830,000 kWh.

4. Other issues

The Second 2017 Negative Report alleged that Binzhou Gaoxin was not an independent third party to the Group and the acquisition of Binzhou Binbei was still a hidden connected party transaction.

For the Company's response and the relevant Agreed-upon Procedures, please refer to the Previous Clarification Announcements.

5. The Audit Findings

For the Company's response and the relevant Agreed-upon Procedures, please refer to the Previous Clarification Announcements.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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

Shandong, the PRC
12 November 2017

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.