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 2017 NEGATIVE REPORT AND THE AGREED-UPON PROCEDURES IN RESPECT OF THE 2016 NEGATIVE REPORT, THE 2017 NEGATIVE REPORT AND THE AUDIT FINDINGS

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).

THE 2017 NEGATIVE REPORT

The Company would like to refute and/or clarify the key negative allegations in the 2017 Negative Report and to rebut the attempt to undermine the confidence of the Shareholders in the business and financial condition of the Company.

The Directors believe that the Group has been committed to its business development by solidifying the industrial models of "Integration of Aluminum and Electricity" and "Integration of Upstream and Downstream Business", expediting the development of the industry clusters, developing resources and enhancing its cost advantages and economies of scale so as to consolidate its leading position in the Chinese aluminum industry. The Group has advanced production facilities, such as the world's first 600kA production line of aluminum products with the highest operation efficiency, and a promising industrial layout. The Directors confirm that as of the date of this announcement, saved as disclosed in the announcement of the Company dated 15 August 2017, the production and operation of the Group are normal, the price of aluminum products basically remained at an above-medium position and the Group's business has maintained a healthy and steady growth.

As stated in this announcement, the 2017 Negative Report contains many selectively chosen figures which were misleading and incorrect, intending to mislead the Company's potential investors and the Shareholders. The Directors do not rule out the possibility that Emerson may have conspired maliciously with other institutions or persons, including but not limited to the Group's competitors in the aluminum industry, and published the 2017 Negative Report in order to adversely affect the normal production operations and annual audit of the Group, in order to achieve for ulterior purposes. Emerson may continue to maliciously attack the Company. The Directors are convinced that the core competitiveness of the Group includes the high efficiency of its production operations, and the advantages arising from the industry cluster where the Group is located. The Directors will continue to lead the employees of the Group to ensure stable production operations by solidifying the industrial advantages of the Group so as to maximize the investment returns to the Shareholders.

As stated in the disclaimer of the 2017 Negative Report, Emerson and/or its associates/partners may have long or short positions in the equities and/or derivatives of the Company at the time of publication of the 2017 Negative Report, and Emerson and/or its associates/partners may maintain or change their positions at any time. The 2017 Negative 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 2017 Negative Report with a view to undermining the Company's reputation, thereby manipulating the price of the Shares and deliberately frustrating the functioning of the market and causing malicious competition. 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.

The Directors and the senior management of the Company confirmed that they had not been contacted or interviewed by Emerson, before the issuance of the 2017 Negative Report, to verify any information stated in the 2017 Negative Report.

THE AGREED-UPON PROCEDURES IN RESPECT OF THE 2016 NEGATIVE REPORT, THE 2017 NEGATIVE REPORT AND THE AUDIT FINDINGS

Reference is made to the announcement of the Company dated 28 April 2017. The Board has engaged BT Risk Assurance as the independent third party professional service firm and performed the Agreed-upon Procedures in relation to the Audit Findings and the allegations set out in the Negative Reports in accordance with the Hong Kong Standard on Related Services 4400 – "**Engagements to Perform Agreed-upon Procedures Regarding Financial Information**" issued by the Hong Kong Institute of Certified Public Accountants.

In this regard, the Company would like to announce that BT Risk Assurance has completed the Agreed-upon Procedures with respect to (i) the 2016 Negative Report; (ii) the 2017 Negative Report; and (iii) the Audit Findings, and submitted the AUP Findings to the Board and the Audit Committee. The Company also lists the main findings of BT Risk Assurance in respect of the allegations in the 2016 Negative Report and the 2017 Negative Report, as well as the Audit Findings and the Agreed-upon Procedures to further support the Company's responses to or views on the allegations in the Negative Reports and the Audit Findings.

LEGAL ACTION TAKEN BY THE COMPANY

As announced by the Company on 31 March 2017, the Company has resolved to seek legal actions against Emerson for defamation and instructed the special legal counsel to send a formal letter of demand to Emerson on 30 March 2017 to take the appropriate remedial/compensating measures. However, Emerson did not take any action to comply with the aforesaid letter of demand, and as such, the Company has formally filed a lawsuit against Emerson in court in Hong Kong.

This announcement is made by the China Hongqiao Group Limited (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).

I. INTRODUCTION

Background

References are made to (a) the announcements of the Company dated 23 November 2016 and 20 December 2016 respectively in relation to the refutations to the allegations in the 2016 Negative Report; (b) the announcements of the Company dated 6 March 2017 and 31 March 2017 respectively in relation to the 2017 Negative Report and the initial responses by the Company to the allegations contained therein; and (c) the announcement of the Company dated 14 June 2017 in relation to the Resumption Conditions (collectively, the "**Previous Announcements**"). Unless the context indicates otherwise, capitalised terms used but not otherwise defined herein shall have the same meanings as ascribed to them in the Previous Announcements.

As previously announced by the Company, (i) on 20 December 2016, the Company refuted and clarified the allegations in the 2016 Negative Report; (ii) on 28 February 2017, the Company noted that the 2017 Negative Report published by Emerson included false and groundless allegations against the Group; and (iii) on 28 February 2017 and 6 March 2017, the Audit Committee also received letters from Ernst & Young (the "**Previous Auditor**") which recommended the conducting of an independent investigation on the Audit Findings and the allegations set out in the Negative Reports.

The 2017 Negative Report

The Company would like to refute and/or clarify the key negative allegations in the 2017 Negative Report and to rebut the attempt to undermine the confidence of the Shareholders in the business and financial condition of the Group.

The Directors believe that the Group has always been committed to its business development by solidifying the industrial models of "Integration of Aluminum and Electricity" and "Integration of Upstream and Downstream Business", expediting the development of the industry clusters, developing resources and enhancing its cost advantages and economies of scale so as to consolidate its leading position in Chinese aluminum industry. The Group has advanced production facilities, such as the world's first 600kA production line of aluminum products with the highest operation efficiency, and a promising industrial layout. The Directors confirm that as of the date of this announcement, save as disclosed in the announcement of the Company dated 15 August 2017, the production and operation of the Group are normal, the price of aluminum products basically remained at an above-medium position and the Group's business has maintained a healthy and steady growth.

As stated in this announcement, the 2017 Negative Report contains many misleading and incorrect figures and information, which were selected with bias to mislead the Company's potential investors and the Shareholders. The Directors do not rule out the possibility that Emerson may have conspired maliciously with other institutions or persons, including but not limited to the Group's competitors in the aluminum industry, and published the 2017 Negative Report in order to affect adversely the normal production and operation and annual audit of the Group for some ulterior purposes. Emerson may continue to maliciously attack the Group. The Directors are convinced that the core competitiveness of the Group includes the high efficiency of its production and operation, and the advantages arising from the industry cluster where the Group is located. The Directors will continue to lead the employees of the Group to insist on the stable production and operation by solidifying the industrial advantages of the Group so as to maximize the investment returns to the Shareholders.

As stated in the disclaimer of the 2017 Negative Report, Emerson and/or its associates/partners may have long or short positions in the equities and/or derivatives of the Company at the time of publication of the 2017 Negative Report, and Emerson and/or its associates/partners may maintain or change their positions at any time. The 2017 Negative Report contains errors of fact, misleading statements and unfounded malicious accusations against the Group and its management, which the Company believes are used in the 2017 Negative Report with a view to undermining the Group's reputation, thereby manipulating the price of the Shares and deliberately frustrating the functioning of the market and causing malicious competition. 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.

The Directors and the senior management of the Company confirm that they had not been contacted or interviewed by Emerson, before the issuance of the 2017 Negative Report, to verify any information stated in the 2017 Negative Report.

The Agreed-upon Procedures in respect of the 2016 Negative Report, the 2017 Negative Report and the Audit Findings

Reference is made to the announcement of the Company dated 28 April 2017. The Board has engaged Baker Tilly Hong Kong Risk Assurance Limited ("**BT Risk Assurance**") as the independent third party professional service firm and performed the Agreed-upon Procedures in relation to the Audit Findings and the allegations set out in the Negative Reports in accordance with the Hong Kong Standard on Related Services 4400 – "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

In this regard, the Company would like to announce that BT Risk Assurance has completed the Agreed-upon Procedures with respect to (i) the 2016 Negative Report; (ii) the 2017 Negative Report; and (iii) the Audit Findings, and submitted the findings of the Agreed-upon Procedures (the "**AUP Findings**") to the Board and the Audit Committee. The Company also lists the main findings of BT Risk Assurance in respect of the allegations in the 2016 Negative Report and the 2017 Negative Report, as well as the Audit Findings and the Agreed-upon Procedures to further support the Company's responses to or views on the allegations in the Negative Reports and the Audit Findings.

II. THE 2017 NEGATIVE REPORT

The Company's position

The Company has carefully reviewed the 2017 Negative Report and the Directors are of the view that the allegations contained in the 2017 Negative Report are misleading, untrue and unfounded, and the Directors do not rule out the possibility that certain institutions or persons intend to maliciously undermine the Chinese aluminum industry. The Company has been striving for the best interests of the Company and its Shareholders and the Company will spare no effort to firmly safeguard the interests of the Shareholders and the assets and business of the Group at all times in full compliance with the Listing Rules and other applicable laws and regulations.

The refutations of the Agreed-upon Procedures against the allegations in the 2017 Negative Report

The AUP Findings further confirmed the false and groundless nature of the allegations against the Group contained in the 2017 Negative Report. In the report of the AUP Findings relating to the 2017 Negative Report, BT Risk Assurance has divided the allegations into the following four main categories and conducted the relevant investigations:

(a) The allegations in the 2017 Negative Report that the Group under-reported its costs, including: (1) the cost of externally-purchased electricity, (2) the cost of self-supplied electricity, (3) the cost of externally-purchased alumina, (4) the cost of self-supplied alumina, and the non-disclosure of the cost of self-supplied steam as a separate item.

AUP Findings

The main products of the Group are primarily aluminum products, with major production costs arising from the cost of alumina and electricity. The testing of the Agreed-upon Procedures conducted by BT Risk Assurance has covered five major costs components including (i) alumina, (ii) carbon anode blocks and other raw materials, (iii) salaries and employee benefits, (iv) electricity and fuels and (v) depreciation, the costs of which represent a total of approximately 99% of the production costs of the Group in each financial year. Based on the Agreed-upon Procedures conducted by BT Risk Assurance, BT Risk Assurance conducted sample testing for each component of production costs, made various analysis and comparisons, and did not identify any under-reporting of production cost, including the cost of externally-purchased electricity, the cost of self-supplied electricity, the cost of externally-purchased alumina and the cost of self-supplied alumina.

In this regard, BT Risk Assurance has mainly conducted the following: (i) review and analysis of the cost breakdown of the operating entities of the Group in each of the financial years; (ii) interview with the management of the Group and review of accounting policies of the Company; (iii) sample testing on the cost of electricity and cost of alumina, trend analysis and comparison analysis on the raw materials including coal and alumina, sample testing and on-site visits to observe different types of generators of the Group; and (iv) review of tax records of the Group, sample testing by randomly selecting related tax payments as samples from the general ledger account for taxation and inspection of all related documentation, including but not limited to accounting policies, tax returns, tax certificates, accounting vouchers and bank payment records.

(b) The allegations in the 2017 Negative Report that the Group concealed related parties, related-party transactions and the related party acquisitions.

AUP Findings

In respect of the allegations regarding the suspected related parties in the 2017 Negative Report, including covering up related-party transactions and related party acquisitions by the Group, BT Risk Assurance did not identify any related-party transactions or related party acquisitions after carrying out verification in relation to the Group and all of the suspected related parties, and obtaining relevant information from the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) and the Companies Registry of Hong Kong (the "**Governmental Public Systems**") and did not identify any suspected related-party transactions or related party acquisitions as alleged in the 2017 Negative Report. In this regard, the Agreed-upon Procedures performed by BT Risk Assurance and the respective results of the findings are:

(i) according to the interviews with the Group's management conducted by BT Risk Assurance, as well as BT Risk Assurance's comparison of the information obtained from the Governmental Public Systems (including the list of shareholders, legal representatives and the list of directors) with the information provided by the Group's management, BT Risk Assurance confirmed that Binzhou Gaoxin Aluminum & Power Co., Ltd.* ("**Binzhou Gaoxin**", 濱州高新鋁電股份有限公司) is an independent third party to the Group, and the acquisitions of Binzhou Municipal Beihai Xinhe New Material Co., Ltd.* ("**Beihai Xinhe**", 濱州市北海信和新材料有限公司) and Binzhou Municipal Binbei New Material Co., Ltd*. ("**Binzhou Binbei**", 濱州市濱北新材料有限公司) were not related-party transactions;

(ii) BT Risk Assurance obtained the information of the Group, Binzhou Gaoxin and the suspected related parties (including Beihai Xinhe and Binzhou Binbei) from the Governmental Public Systems and confirmed that there is no connection in respect of shareholding structure or senior management (including directorships) between the principal operating companies of the Group and Binzhou Gaoxin or its shareholders. BT Risk Assurance's test results showed that Binzhou Gaoxin is an independent third party to the Company, and the acquisitions of Beihai Xinhe and Binzhou Binbei by the Group were not related-party transactions; and

(iii) with respect to the suspected related party acquisition transaction, i.e. the acquisition transaction of Binzhou Binbei, according to BT Risk Assurance's interview with Liu Gang (a suspected director of Binzhou Binbei during the acquisition transaction) and the written confirmation provided by him, Liu Gang confirmed that at the time of acquisition of Binzhou Binbei by the Group in December 2014, he was not a director or legal representative of Binzhou Binbei, Shandong Binbei New Materials Co., Ltd.* ("**Shandong Binbei**", 山東濱北新材料有限公司) or such group. Additionally, BT Risk Assurance obtained the relevant transactional documents of the acquisition, including the equity acquisition agreement and the organization structure of the companies involved (Beihai International Trade Co., Ltd. ("**Beihai Trade**", 北海國際貿易有限公司), Beihai Investment Co., Ltd. ("**Beihai Investment**", 北海投資有限公司), Shandong Binbei, Binzhou Binbei and the Group), and confirmed that there is no connection in respect of the shareholding structure of Beihai Trade, Beihai Investment, Shandong Binbei and Binzhou Binbei (prior to the acquisition by the Group in December 2014) or their senior management (including directorships) between them and the Group. Hence, each of them was an independent third party.

For the detailed disclosures of the abovementioned AUP Findings, please refer to pages from 42 to 43 and 54 to 55 of this announcement.

(c) The allegations in the 2017 Negative Report that the Group faced cash flow issues and huge debts, such as false reporting of cash assets and excessive debt levels.

AUP Findings

With respect to the allegation of excessive debt levels as set out in the 2017 Negative Report, BT Risk Assurance conducted sample testing on the borrowings of the Group, conducted trend analysis on the various financial ratios, and analyzed the Group's bank balances and the levels of cash, current assets, short-term borrowings and interest expenses for the period 2010 to 2015. Based on the aforesaid analysis, BT Risk Assurance found that in 2015, although the Group's debt-to-equity ratio was 149% at its highest, the ratio of short-term debts over current assets still remained at 79%, and the proportion of interest expenses to bank balances and cash remained at around 31%. This showed that the risk level associated with the Group's liquidity remained within the manageable range.

With respect to the authenticity of the Group's cash and bank balances, BT Risk Assurance conducted sample testing on the Group's interest income during the period from 2013 to 2016. In addition, it has performed reconciliations of the Group's internal financial records, consolidated results and annual reports to ensure that the relevant bank balances are consistent with the information disclosed in the annual reports for the period from 2010 to 2015. BT Risk Assurance enquired with the Group's finance staff about the nature of the interest income for the period from 2010 to 2015, and verified the accuracy of such interest income against the Group's bank statements and the publicly available reference deposit interest rates on the website of the People's Bank of China. In addition, BT Risk Assurance obtained copies of the Group's internal financial accounts, bank statements of all of the Group's PRC bank accounts, and reconciled the respective bank balances as at 31 December 2015. Based on the Agreed-upon Procedures carried out, BT Risk Assurance did not identify any shortfalls in the relevant bank balances of the Group. BT Risk Assurance is also of the view that the methodologies used in the 2017 Negative Report to arrive at the estimated interest rate of the Group is erroneous, and the consequent analysis set out in the 2017 Negative Report alleging that the Group falsely reported its cash assets does not have sufficient basis.

View of the Company and the Audit Committee

As supported and demonstrated by the liquidity analysis carried out by BT Risk Assurance as set out above, the Company and the Audit Committee are of the view that the Group has adopted appropriate liquidity risk management framework to control its liquidity risks. In view of the aforesaid, although the Group has a debt of approximately RMB53.9 billion as disclosed in the Company's annual report for the financial year ended 31 December 2015, the Company and the Audit Committee are of the view that this would not affect the Group's sustainability.

Based on the AUP Findings, including the verifications carried out by BT Risk Assurance as to the Group's bank statements and bank balances, the Company and the Audit Committee are of the view that the Group's bank and cash level are true, and the relevant allegations set out in the 2017 Negative Report have been sufficiently addressed.

(d) Other allegations in the 2017 Negative Report including the increase of the capital expenditures and overestimation of profit margin.

AUP Findings

BT Risk Assurance did not identify any anomalies after conducting sample testing on the capital expenditures of the Group. Further, BT Risk Assurance did not identify any anomalies after verifying the major production costs of the Group and analyzing the profit margin. In this regard, BT Risk Assurance has mainly conducted the following: (i) interviews with the Group's management; (ii) trend analysis; (iii) review of the Company's accounting policies on capital expenditure; and (iv) review of samples of capital expenditures and purchases.

Set forth below are the responses of the Company to specific allegations in the 2017 Negative Report and the corresponding AUP Findings:

Part 1 Abnormal Financial Performance

1.1. Deloitte Resigned as Auditor in June 2015

The Company's Response

The 2017 Negative Report alleged that the resignation of Deloitte Touche Tohmatsu ("**Deloitte**") is an obvious red flag on the Company's financial health. The speculation in the 2017 Negative Report of financial irregularities solely made on the basis of Deloitte's resignation is misleading and groundless.

Reference is made to the announcement of the Company dated 12 June 2015 in relation to the change of auditor of the Company. The Directors confirm that the information contained in the announcement of the Company dated 12 June 2015 is true and accurate. As disclosed therein, the reason for the resignation of Deloitte was that the Company and Deloitte were unable to reach a consensus on the audit fee for the year ended 31 December 2015. Deloitte had confirmed in writing that there were no matters in relation to its resignation as the Company's auditor that need to be brought to the attention of the Shareholders or creditors of the Company. The Board had also confirmed that there were no disagreements or outstanding matters between the Company and Deloitte, and the Board was not aware of any other matters in relation to the change of auditor that need to be brought to the attention of the Shareholders or creditors of the Company.

1.2. Absurdly High Margins

The Company's Response

The 2017 Negative Report alleged that the high net profit margin of the Group is abnormal compared with its peers in the aluminum industry. The Directors believe that as further elaborated on pages 10 and 15 of this announcement, the Group has some unique business models, which may be different from those of the peers quoted in the 2017 Negative Report. For example, the Group has its own integrated independent power grid. By virtue of the geographical and synergetic advantages of the aluminum industry cluster in Binzhou City, Shandong Province, the PRC, the Group can also provide products in the form of molten aluminum instead of aluminum ingot to downstream customers, which saves the Group's cost of casting and carriage, and procure alumina in bulk (散裝) from its upstream suppliers, which saves the Group's costs of packaging, stevedoring and carriage. As such, the Directors believe that it is not appropriate to simply compare the Group with its peers without consideration of the Group's unique business models.

Set out below are the net profit margins of the Group for the seven years ended 31 December 2015:

	For the years ended 31 December						
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Net profit margin	6.7%	27.7%	24.9%	22.0%	19.0%	14.7%	8.2%

The Group was able to achieve such net profit margins mainly due to the synergetic combination of the following factors: (1) the low cost of electricity; (2) the low cost of alumina; (3) the advanced technologies and equipment; and (4) the strategic geographical location.

(1) low cost of electricity

The reasons for the low cost of electricity of the Group mainly include the following:

(i) the Group has its own independent power grid, which is not connected to other power grids, and no system standby fees and wheeling fees are payable by the Group. According to relevant documents issued by the pricing authorities in Shandong Province, the PRC, all power plants connected to a power grid in Shandong Province, the PRC, shall pay the system standby fee of RMB0.035 per kWh to the power grid company which it is connected to;

(ii) the Group has been increasing the proportion of self-supplied electricity in its total electricity consumption, which is generally cheaper than externally-purchased electricity. From 2010 to 2015, the proportion of self-supplied electricity in the Group's total electricity consumption increased from 55.1% to 84.7%;

(iii) during the process of electricity production, the thermal power plants of the Group are also able to generate a large volume of steam, which is used to satisfy the Group's demand for steam in the process of production of alumina. The excess steam is sold to external customers, which generates significant revenue, and the cost of which, combined with the cost of steam used in self-supplied alumina, was recorded separately in the cost of sales of the Group instead of the production cost of electricity for accounting purposes;

(iv) the Group's considerably high average utilization hours of power generators enhanced the operational efficiency of the power plants of the Group and therefore decreased the cost of self-supplied electricity; and

(v) the Group strictly controls the construction costs of power plants. The decrease of such construction costs of power plants of the Group can reduce the unit depreciation costs of electricity. With years of experience in the construction and management of power plants, the Group controls its construction costs of power plants through the following four aspects:

  (a) the Group can implement shorter preparation periods and construction periods of its power plant construction projects;

  (b) the Group has greater bargaining power in purchasing due as it purchases equipment and materials for its power plant construction projects in bulk;

  (c) the Group generally subcontracts its power plant construction projects and strictly controls the costs of each subcontracting project. Compared with that through one general contractor, the Group can maintain lower construction costs; and

  (d) the Group generally locates its power plant construction projects in areas with complete ancillary facilities in order to save the costs for construction of ancillary facilities.

For further details and concrete figures, please refer to the Company's refutation to the allegations in the 2017 Negative Report below.

(2) *low cost of alumina*

The reasons for the low cost of alumina of the Group mainly include the following:

(i) the Group has been increasing the proportion of self-supplied alumina in its total alumina consumption through investment in alumina production facilities and bauxite resources. From 2010 to 2015, the proportion of self-supplied alumina in the Group's total alumina consumption increased from nil to approximately 57.6%. As the Group's production cost of self-supplied alumina is obviously lower than the average price of alumina supplied by independent third parties in the PRC, the increase of the proportion of self-supplied alumina of the Group would lower the Group's cost of alumina. From 2010 to 2015, the amount of self-supplied alumina and the procurement amount of alumina supplied by domestic independent third parties to the Group are as follows:

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Self-supplied alumina *(ton)*	Nil	Nil	1,486,915	2,897,055	3,616,347	4,981,120
Alumina supplied by domestic independent third parties *(ton)*	2,110,817	3,035,570	1,987,233	1,735,938	2,438,725	3,663,993
Total	2,110,817	3,035,570	3,474,149	4,632,993	6,055,072	8,645,113

The Group's construction of the alumina production facilities, designed with an annual production capacity of 3 million ton was completed and gradually put into operation in 2012, and the Group has continued to expand the production capacities of the domestic alumina projects. The Group also invested in bauxite resources in Guinea in 2015. Details of the production capacity of the domestic alumina projects invested by the Group from 2011 to 2015 are set out below:

	For the year ended 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
Alumina production capacity *(ton/year)*	Nil	3,000,000	3,000,000	4,000,000	6,500,000
Proportion of self-supplied alumina	Nil	42.8%	62.5%	59.7%	57.6%

(ii) Bauxite procurement cost is an important cost of alumina production. The Group has increasingly strong bargaining power in the purchase of bauxite and maintains long-term cooperative relationships with some of the suppliers due to the Group's increasingly large scale of production. In addition, the Group has established the first complete industrial chain in the PRC, from overseas mines to domestic factories, that utilizes multimodal transportation, which could ensure steady raw material supply to the Group and effective cost control and substantially minimize prices of raw materials and potential risks due to supply and demand fluctuations.

(iii) The Group adopts Bayer's low-temperature and low-pressure method for alumina production to ensure more stable operation of production lines and reduce energy consumption. The Group also adopts the one-stage decomposing production method (一段式分解生產模式) to ensure the high-yield ratio of alumina. The Group also has the large-scale cold pipe dissolution technology (大型冷管道溶出技術) and the large-scale evaporation energy-saving equipment to reduce energy consumption. Additionally, the Group reuses coking waste gas (焦化廢氣) in the industry cluster for calcination to reduce the cost of calcination.

Further, the Group has its own overseas alumina production facilities. In the first half of 2016, the Group's project in Indonesia, which was designed to reach an annual production capacity of one million ton of alumina, commenced operation.

For further details and concrete figures, please refer to the Company's refutation to the allegations in the 2017 Negative Report below.

(3) advanced technologies and equipment

The majority of smelting pots of the Group are equipped with large electricity prebaked cell with four-ends with current intensity of 400kA to 600kA (400kA至600kA四端進電大型預焙槽), and the Group has also successfully operated the world's first whole series 600kA production line of aluminum products (全系列600kA鋁產品生產線) since the first half of 2015. According to the scientific technology achievement assessment report issued by China Nonferrous Metals Industry Association (中國有色金屬工業協會), and commissioned by Weiqiao A&P, such 600kA primary aluminum production line is characterized by high unit productivity, low consumption cost, low emission and high production efficiency, matching overall international technical standards. On 26 December 2016, Weiqiao A&P had also been awarded the First Prize of the China Nonferrous Metals Industry Scientific Technology Award issued by the China Nonferrous Metals Industry Association (中國有色金屬工業協會) and the Nonferrous Metals Society of China (中國有色金屬學會) for its technical development and industrialization application of NEUI600kA efficient aluminum electrolytic cell.

According to the research report regarding aluminum industry and aluminum market issued by Antaike (i.e. Beijing Antaike Information Development Limited (北京安泰科信息開發有限公司)), the average proportions of aluminum products production lines with current intensity of over 300kA in the total production capacity of aluminum products in the PRC for the five years ended 31 December 2015 were 49.8%, 66.6%, 66.2%, 73.0% and 75.7%, respectively. The proportions of aluminum products production lines with current intensity of over 300kA in the total production capacity of aluminum products of the Group for the five years ended 31 December 2015 were 85.6%, 87.3%, 91.3%, 93.6% and 95.1%, respectively. The research report regarding aluminum industry and aluminum market issued by Antaike was prepared based on Antaike's own professional knowledge and data. Such research report was not commissioned by the Group. To the best knowledge of the Company, Antaike was established in 1992, and is currently owned by the Nonferrous Metals Technology Economic Research Institute of the China Nonferrous Metals Industry Association (the China Nonferrous Metals Industry Information Centre) (中國有色金屬工業協會有色金屬技術經濟研究院(中國有色金屬工業信息中心)), and is a state-owned limited liability company. Relying on the industrial position and background of the China Nonferrous Metals Industry Information Centre, Antaike focuses on the research and analysis of the production, consumption, market, management and policy of the nonferrous metal industry, and also provides services of global metal industry consultation, industry convention and exhibition, basic information construction and brand promotion, etc.

The Group has been investing in advanced technologies and equipment, including investment in the production lines with the current intensity of 400KA since 2010 and the production lines with the current intensity of 500-600KA since 2013. As at 31 December 2016, the proportion of aluminum production lines with current intensity of over 400kA in the total production capacity of aluminum production of the Group reached 87.7%.

As mentioned above, the Group adopts Bayer's low-temperature and low-pressure method for alumina production to ensure more stable operation of production lines and reduce energy consumption. The Group also adopts the one-stage decomposing production method (一段式分解生產模式) to ensure high-yield ratio of alumina. The Group also has the large-scale cold pipe dissolution technology (大型冷管道溶出技術) and the large-scale evaporation energy-saving equipment to reduce energy consumption. In addition, the Group reuses coking waste gas (焦化廢氣) in the industry cluster for calcination to reduce the cost of calcination.

According to the Announcement Regarding the List of Energy Efficiency Leading Enterprises for Year 2016 (關於公佈2016年度能效「領跑者」企業名單公告) published by the Ministry of Industry and Information Technology of the PRC ("**MIIT**", 中華人民共和國工業和信息化部), National Development and Reform Commission of the PRC ("**NDRC**", 中華人民共和國國家發展和改革委員會) and General Administration of Quality Supervision, Inspection and Quarantine of the PRC ("**GAQSIQ**", 中華人民共和國國家質量監督檢驗檢疫總局) on 18 July 2016, in respect of electrolytic aluminum industry, there are only two leading enterprises in the list, Shandong Hongqiao and Weiqiao A&P, each is a wholly-owned subsidiary of the Company. This list was made in accordance with the Notice of Promulgation of the Implementation Rules of the Energy Intensive Industry Energy Efficiency Leading Enterprises Regime issued by the MIIT, NDRC and GAQSIQ (關於印發高耗能行業能效「領跑者」制度實施細則的通知) and the standards contained therein. Such standards include but are not limited to the standards that the energy consumption of the products of the relevant enterprise shall reach the leading rate in the energy consumption limit of national standards and the relevant enterprise has established its energy management systems in accordance with the national standard Energy Management System Requirement (能源管理體系要求) (GB/T23331).

(4) strategic location

The Group is strategically headquartered in Zouping County, Binzhou City, Shandong Province, one of the major aluminum products manufacturing bases in the PRC. According to the "Thirteenth Five-Year Plan" of Binzhou City Government, at the end of the "Thirteenth Five-Year Plan", there are supposed to be more than 100 large-scale aluminum enterprises, with a output value of RMB500 billion for the aluminum industry. By virtue of the geographical and synergetic advantages of the aluminum industry cluster in Binzhou City, the Group can provide products in the form of molten aluminum instead of aluminum ingot to downstream customers, which saves the cost of casting and carriage of approximately RMB150 per ton, and reduces the cost of carriage of molten aluminum products to only approximately RMB10 per ton. The Group can also procure alumina in bulk (散裝) from its upstream suppliers, which saves the costs of packaging, stevedoring and carriage ranging from approximately RMB150 per ton to approximately RMB300 per ton.

The 2017 Negative Report alleged that the Group's self-supplied electricity and molten aluminum cannot explain the high net profit margin of the Group. The Directors are of the view that it is unreasonable to separately analyze a specific item of the cost advantages to judge whether the high net profit margin of the Group is normal. The Directors believe the high net profit margin of the Group is the result of the synergetic effect of the combination of the factors as mentioned above.

The fluctuation in the Company's net profit margins from 2009 to 2015 is mainly attributable to the average selling price and unit cost of aluminum products and all of the aforementioned four factors may reduce the unit cost of aluminum products. The Company's net profit margin essentially experienced an increasing trend from 2009 to 2011 and a decreasing trend from 2012 to 2015. The average selling price of our aluminum products essentially refers to the aluminum ingot prices on the Yangtze River Spot Price. The trend of Yangtze River Spot Price from 2009 to 2015 is set out below:

As shown in the chart, the trend of the Company's net profit margins was essentially consistent with the trend of the aluminum ingot prices on the Yangtze River Spot Price from 2009 to 2015.

As shown in the table on page 10 of this announcement, the net profit margin of the Group significantly increased to 27.7% in 2010 as compared with that of 2009. The operation figures for sales of aluminum products in 2009 and 2010 are set out below:

	For the year ended 31 December		
	2009	**2010**	**Change**
Sales volume of aluminum products *(ton)*	731,043	1,064,775	45.7%
Average selling price of aluminum products (value added tax ("**VAT**") exclusive) *(RMB/ton)*	11,858	13,575	14.5%
Revenue from sales of aluminum products *(RMB'000)*	8,668,428	14,453,933	66.7%
Unit cost of aluminum products (VAT exclusive) *(RMB/ton)*	10,627	8,393	-21.0%
Cost of sales of aluminum products *(RMB'000)*	7,769,098	8,936,517	15.0%

Such significant increase of the net profit margin of the Group from 2009 to 2010 is mainly attributable to the following reasons:

(i) the average selling price of aluminum products of the Group decreased in 2008 and 2009 due to impact of global financial crisis and the sluggishness of domestic economy. China's economy started its recovery in 2009, with the aluminum price increasing gradually. In 2010, the average selling price of aluminum products of the Group increased by approximately RMB1,717 per ton as compared with that of 2009. Such increase in the selling price of aluminum products is an important factor resulting in the increase of net profit margin of the Group.

(ii) in 2010, the unit cost of aluminum products decreased significantly due to the decrease in the costs of electricity and alumina.

(a) as disclosed on page 133 of the Prospectus, the Company entered into an electricity supply agreement with Binzhou Gaoxin in June 2008, and Binzhou Gaoxin started to supply electricity to the Group in June 2008. Pursuant to such electricity supply agreement, Binzhou Gaoxin shall be responsible for building a power network to connect the Group's facilities to the generators. Such construction cost was reimbursed by the Group and was amortized and included in the electricity price that the Group actually paid to Binzhou Gaoxin from June 2008 to December 2009, which was fully settled as of 31 December 2009. The Group has recognized such construction cost as part of the electricity purchase price in the Group's cost of sales in 2008 and 2009. The construction cost for the power network connecting the Group's facilities to Binzhou Gaoxin's generators was fully amortized by the end of 2009. Therefore, without such construction cost included in electricity purchase price since 2010, the Company's electricity purchase price from Binzhou Gaoxin decreased by RMB0.16 per kWh (VAT exclusive) from RMB0.45 per kWh (VAT exclusive) in 2009 to RMB0.29 per kWh (VAT exclusive) in 2010;

(b) in 2010, the self-supplied electricity proportion increased and as the Group enhanced the utilization hours and efficiency of its thermal power plants in 2010, the self-supplied electricity cost decreased by RMB0.092 per kWh (VAT exclusive) from RMB0.293 per kWh (VAT exclusive) in 2009 to RMB0.201 per kWh (VAT exclusive) in 2010;

(c) at the end of December 2009, the Company entered into a long-term alumina purchase agreement with Binzhou Gaoxin to ensure a more favorable supply price of alumina. The purchase price of alumina in 2010 decreased by RMB91.36 per ton (VAT exclusive) compared with that of 2009; and

(d) as disclosed on page 136 of the Prospectus, the Company provided steam to Shangdong Weiqiao Chuangye Group Company Limited ("**Weiqiao Chuangye**", 山東魏橋創業集團有限公司) for free before 2010 (the cost of steam was not recorded separately and was included in the cost of electricity production) and started to sell steam externally in 2010 (the cost of steam sold was recorded separately in the cost of sales of the Group, therefore the production costs of electricity of the Group decreased accordingly).

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things;

(a) obtained the internal financial accounts from the finance department of the Company and downloaded the annual reports of the Company for 2010 to 2015 from the website of the Stock Exchange – HKEX News;

(b) calculated the net profit margin for each of the financial years from 2010 to 2015 and analyzed the trends of these calculations;

(c) compared and analyzed the Group's net profit ratios from the disclosures made in the Prospectus for the period from 2007 to 2009, against the information of the Group's peers as provided in the 2017 Negative Report;

(d) obtained explanations from the Group's management with respect to the apparently high net profit margin as compared to its peers;

(e) further investigated publicly-available information, so as to verify the accuracy of the explanations from the Group's management;

(f) identified the factors affecting the gross profit margins as claimed in the 2017 Negative Report, including the calculation methods of (1) externally-purchased electricity, (2) self-supplied electricity, (3) externally-purchased alumina, and (4) self-supplied alumina;

(g) analyzed the four factors affecting gross profit margin, including (1) externally-purchased electricity, (2) the cost of self-supplied electricity, (3) the cost of externally-purchased alumina, and (4) the cost of self-supplied alumina, including the trends of market prices versus actual costs. Sample testing and review of supportive documents were carried out for each four factors;

(h) understood the relevant policies regarding fixed assets, including the newly purchased fixed assets, depreciation and self-constructed fixed assets, through interviewing and enquiring with the Group's staff in charge of the relevant projects;

(i) reviewed the accounting policies relating to the capital expenditures and procurement of the Group for compliance with the International Accounting Standard 16 – Property, Plant and Equipment;

(j) verified capital expenditures and procurement transaction samples randomly chosen from the fixed assets schedule during 2013 to 2016, so as to ensure that the relevant capital expenditures and procurement transactions were valid and supported by the relevant documents;

(k) analyzed the trends of the debt-to-assets ratio during 2010 to 2016;

(l) reconciled the items of fixed assets in the respective accounting ledgers to check for any inconsistencies;

(m) reconciled the items for projects under construction in the general ledger and the internal list of projects under construction to check for any inconsistencies;

(n) selected samples from the list of projects under construction, and verified all relevant evidential documents, such as purchase contracts, purchase orders, invoices from the suppliers, delivery receipts from the suppliers, reports of inspection/acceptance of projects under construction and accounting vouchers, and compared the costs of similar projects under construction as stated in external sources of data, so as to review the reasonableness of the costs of the new projects of the Group; and

(o) selected samples of projects under construction, and carried out on-site inspections to verify the existence of such fixed assets and projects under construction.

AUP Findings

BT Risk Assurance calculated the net profit margin of the Group for each of the financial years based on the information from the annual reports of the Company for the period from 2010 to 2015, which was consistent with the figures set out in the 2017 Negative Report.

BT Risk Assurance conducted trend analysis on the net profit margin and it shows that the net profit margin of the Group has been declining year by year since 2010, from 27.7% for the year 2010 to 8.2% for the year 2015 while the sales revenue of the Group has been increasing year by year. The main reasons for such decrease are the decline of the market price of aluminum products, the increase of administrative expenses and financial expenses and the increase of foreign exchange loss.

BT Risk Assurance further compared and analyzed the Group's net profit margin from 2007 to 2009 against the data of its peers as provided in the 2017 Negative Report. As the net profit margin of the Group was comparable with its peers for the relevant period, and there were no apparent irregularities in the net profit margin trend of the Group as compared to its peers, no further analysis was made by BT Risk Assurance.

Although the net profit margin of the Group has been declining year by year since 2010, the performance of the Group is still better than that of its peers in the aluminum industry in the PRC, which is mainly due to the Group's industrial models of "Integration of Upstream and Downstream Business" and "Integration of Aluminum and Electricity" and the advantages of the local industry clusters, resulting in the lower cost of self-supplied electricity compared to its PRC peers, and the high proportions of self-supplied electricity and self-supplied alumina, resulting in the lower production costs compared to its peers. Besides, the capacity utilization rate (i.e. the ratio of output to capacity) of the Group was kept at a relatively high level, which was higher than the average capacity utilization rate of the entire industry. In addition, the Group managed to control the waste rate of energy better than its peers through technical advantages and reduced the fuel cost by recycling the steam generated in the process of power generation for its own use and sale to external third parties.

BT Risk Assurance has reviewed the four factors affecting the net profit margins as claimed in the 2017 Negative Report including costs of externally-purchased electricity, the cost of self-supplied electricity, the cost of externally-purchased alumina and the cost of self-supplied alumina, which were alleged in the 2017 Negative Report to have been under-reported. BT Risk Assurance has performed sample testing on all four factors for the period from 2013 to 2016 for supporting documents and no under-reporting of costs was identified, and extended such testing for externally-purchased electricity to cover the period from 2007 to 2012. In addition, BT Risk Assurance analyzed the above four factors with reference to its market prices and actual cost and reached the conclusion that there were no misstatements or unreasonable findings.

Based on the AUP Findings, BT Risk Assurance did not identify any anomalies in the Group's explanations with respect to the 2017 Negative Report.

View of the Company and the Audit Committee

The Company and the Audit Committee note that BT Risk Assurance had performed appropriate and comprehensive procedures with respect to the Group's cost of electricity production from 2010 to 2015, and did not identify any anomalies. In addition, BT Risk Assurance had also analyzed the Group's production cost of electricity for aluminum products as part of its Agreed-upon Procedures with respect to the Group's profitability ratio for the period from 2010 to 2015. Based on the aforesaid AUP Findings, the Company and the Audit Committee are of the view that BT Risk Assurance had provided the appropriate basis for the Company's refutation of the relevant methodologies and results that purportedly supported the relevant allegations set out in the 2017 Negative Report for the period from 2010 to 2015.

In view of the above, the Company and the Audit Committee are of the view that the relevant allegations in the 2017 Negative Report have been sufficiently addressed.

1.3. How to Shave the Cost of Self-supplied Electricity by 33% when Coal Price Rises 23%?

The 2017 Negative Report alleged that, based on the calculations set out in Exhibits 5 and 7 of the 2017 Negative Report, the cost of self-supplied electricity of the Group for the nine months ended 30 September 2010 was under-reported as the coal price rose by 23%. The 2017 Negative Report further hypothesized that the decrease in the Group's cost of self-supplied electricity could not be due to (i) an increase in the Group's generator efficiency or (ii) the presence of significant coal stockpile held by the Group. Further, the 2017 Negative Report hypothesized that the increase in the average utilization hours of the Group's power generators in 2010, by itself, did not provide sufficient explanation of the aforesaid decrease in the Group's cost of self-supplied electricity.

The Company and the Audit Committee are of the view that the calculations set out in Exhibits 5 and 7 of the 2017 Negative Report, and the claim that the possible reasons hypothesized in the 2017 Negative Report could not possibly explain (or was the sole cause of) the decrease in the cost of the Group's self-supplied electricity are not accurate. However, as set out further below, the Company and the Audit Committee are of the view that the price of coal is not the only factor affecting the generation cost of self-supplied electricity. Further, the Qinhuangdao spot price for 5,000 kcal coal was not the appropriate reference of coal price for the purposes of calculating the cost of price of raw coal of the Group.

The comparison made in the 2017 Negative Report between 2009 and the first nine months of 2010 was not appropriate as they were not comparable in terms of duration. Adopting a more meaningful comparison than that used in the 2017 Negative Report, the Group's cost of self-supplied electricity for the financial year ended 31 December 2010 decreased by 31.4%

compared to that for the financial year ended 31 December 2009, despite an increase in usage price of raw coal of 17.46% for the same period. The Group's decrease in cost of self-supplied electricity was due to the following factors:

(i) Separate recording of the Group's cost of steam

As disclosed in the Prospectus, prior to 2010, the Group supplied steam to Weiqiao Chuangye at nil consideration, and hence the cost of steam was not recorded separately from the cost of electricity production. In 2010, the Group ceased supplying steam to Weiqiao Chuangye and started to supply steam to Binzhou Gaoxian at the price of RMB150 per ton (VAT inclusive). As a result, the cost of steam sold to Binzhou Gaoxin was recorded separately in the cost of sales of the Group, instead of the production cost of electricity. Correspondingly, the revenue from sale of steam was recorded as revenue of the Group. Furthermore, in 2010, the volume of steam produced by the Group (and correspondingly the associated cost of steam being recorded separately) increased by 42.7% as compared to 2009 due to (i) the increase in loading in 2010 of certain power generators (which also produce steam) that commenced production in 2009 and (ii) an increase in demand of steam from Binzhou Gaoxin in 2010. Therefore, the Group's cost of electricity production decreased accordingly.

(ii) The increase of average utilization hours of the Group's power plants

The average utilization hours of the Group's power plants for the financial year ended 31 December 2010 increased 95.7% as compared to that for the financial year ended 31 December 2009. As the average utilization hours of the Group's power plants increased, the cost of production of self-supplied electricity decreased as certain costs, such as cost of labour and depreciation of equipment are spread across the higher amount of electricity produced, thus decreasing the other costs of self-supplied electricity for the year ended 31 December 2010 by 78.18% as compared to that for the year ended 31 December 2009.

With respect to the price of raw coal used by the Group, the Qinhuangdao spot price for 5,000 kcal coal is not the appropriate measurement as such spot price corresponds most closely to the price of coal transported on the Daqin railway, which is mainly from Datong City of Shanxi Province, the PRC. The Group, on the other hand, procured its coal mainly from sources such as Xinzhou City, Yangquan City and Jinzhong City, the PRC, which coal are mainly transported by road. As such, the usage price of raw coal of the Group for financial year ended 31 December 2010 increased only by 17.46% compared to that for the financial year ended 31 December 2009, as opposed to 23% increase for the Qinhuangdao spot price for 5,000 kcal coal during the same period.

Based on the above, both the Board and the Audit Committee are of the view that the above clarification and explanation appropriately and sufficiently addressed the allegations in the 2017 Negative Report.

Relevant comparative figures (VAT exclusive) between 2009 and 2010 in relation to the cost of self-supplied electricity of the Group are set out below:

	For the years ended 31 December		**Change**
	2009	**2010**	
Costs of self-supplied electricity *(RMB/kWh)*	0.293	0.201	-31.4%
Fuel costs[1] *(RMB/kWh)*	0.183	0.177	-3.83%
Other costs[2] *(RMB/kWh)*	0.110	0.024	-78.18%
Usage price of raw coal[3] *(RMB/ton)*	500.12	587.43	17.46%
Power generation[4] *(10,000kWh)*	313,483	793,514	153.1%
Rated power generation *(10,000kWh)*	684,923	885,978	29.35%
Generation volume of steam[5] *(ton)*	3,578,000	5,105,000	42.7%
Average utilization hours of power plants[6] *(hours)*	4,009	7,846	95.7%

Note 1: Fuel costs = usage price of raw coal x (coal consumption amount/power generation).

Note 2: As disclosed on page 6 of the Prospectus, for the year ended 31 December 2009, Weiqiao A&P supplied steam to Weiqiao Chuangye free of charge. The cost of producing such steam for the year ended 31 December 2009 was approximately RMB0.08 per kWh, which was accounted for under "other costs" of the Group. Other costs of the Group excluding the cost of steam for the year ended 31 December 2009 were approximately RMB0.03 per kWh.

Note 3: Usage price of raw coal refers to the average price of the raw coal actually used by the Group during the year. The Group adopts the usage price of raw coal instead of the purchase price of raw coal, because when the Group uses part of the coal reserves, the usage price of raw coal can better reflect the actual fuel cost. For more details, please refer to page 36 of this announcement. Coal price reached its highest level in recent years in 2008. While at the beginning of 2009, the coal reserve of the Group was relatively high, the coal purchase price was relatively low in 2009, therefore the usage price of raw coal was 3.79% higher than the coal purchase cost; while at the beginning of 2010 the price of the coal reserve was relatively low, and the coal purchase price increased in 2010, therefore the usage price of raw coal was 1.63% lower than the coal purchase cost. As a result, the usage price of raw coal increased by only 17.46%, while the coal purchase price in 2010 increased by 23% comparing to that of 2009.

Note 4: The significant increase in power generation of the Group for the year 2010 as compared with that of 2009 was mainly due to the facts that (i) certain power generators of the Group under construction commenced production during 2009. To ensure the safety of production and construction, in 2009, the Group set a relatively low power generation target for those power generators without full-loading; (ii) the Group ceased purchasing electricity from Weiqiao A&P at the end of 2009; and (iii) the Group achieved an average annual production growth rate of 31.33% in the Group's aluminum products in 2010, the production of which increased to 970,500 tons, resulting a significant increase in the Group's demand on electricity.

Note 5: As there were generator units coming into use in December 2009 and February 2010, respectively, in the power plants of the Group, the total number of generator units increased from six to eight. At the same time, and the demand for steam from Group's customers increased. Hence, this resulted in a substantial increase in the volume of steam generated by the Group.

Note 6: Average utilization hours of power plants = (power generation/rated power generation of power plant) x 8,760. The significant increase in average utilization hours of power plants was due to the facts that (i) the Group's power generation for the year 2010 increased by 153.1% as compared to that of 2009; and (ii) the Group's power generator units were arranged for maintenance in 2009 and not in 2010.

Agree-upon Procedures Performed by BT Risk Assurance

BT Risk Assurance understood that the Group's relevant operating entities which produced electricity had 40 power generator units in total in the year 2016. In order to calculate the utilization hours of power generator units more accurately, BT Risk Assurance chose 34 power generator units in stable operation, which were equipped with condensing thermal power units (the main function of which is power generation), to calculate the utilization hours of power generator units of the relevant operating entities for the year 2016.

BT Risk Assurance also recalculated the utilization hours of power generator units of the relevant operating entities for the years of both 2009 and 2010 and conducted comparative analysis on the results.

AUP Findings

BT Risk Assurance understood that the Group had 40 electricity generator units in the year 2016, six units of which were not put in full production with relatively low annual volume of electricity supply and not considered suitable for reference purpose and therefore were not selected in the calculation. In the calculation, the figures of the total annual volume of electricity produced are based on the figures on electricity meters recorded by the Group and the relevant annual accumulation reports. BT Risk Assurance calculated the utilization hours for the years of 2009, 2010 and 2016 and compared those to the maximum efficiency hours of production capacity. The maximum efficiency hours of production capacity is the theoretical maximum utilization hours of power plants that can be achieved in full load operation. The Group's utilization hours for the years of 2009, 2010 and 2016 were all lower than the maximum efficiency hours of production capacity, which indicates the Group's utilization hours was achievable and within normal range. BT Risk Assurance also compared the utilization hours of the Group for the years from 2009 to 2010, and from 2013 to 2016, and confirmed that the trend of the annual utilization hours of the Group was consistent.

Part 2 True Electricity Generation Cost 40% Higher than Company's Claim

2.1. Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers'

The Company's Response

The 2017 Negative Report alleged that the cost of the self-supplied electricity of the Group was under-reported as the cost of electricity generation of the Group was lower than that of power generation companies. The Directors confirm that the cost of electricity production of the Group power generation companies was not under-reported and instead can be explained by the reasons set out below.

The power plants of the Group are heat and power combined plants (熱電聯產機組), which can generate electricity and steam simultaneously. This is a key difference from those power generation companies that only or mainly have condensing units (純凝機組) which cannot produce steam externally during its electricity production process. By virtue of the synergetic and geographical advantages of the aluminum industry cluster in Binzhou City, the Group can sell excess steam to its neighboring enterprises. As explained in page 22 of this announcement, since 2010, the cost of steam sold was recorded separately in the cost of sales of the Group, therefore the production costs of electricity of the Company decreased. This is different from those which may not be able to sell significant amount of steam externally to others companies located nearby with a demand for steam for production.

Meanwhile, the main operating parameters (主要運行參數) of the Group's power generator units are maintained in line with the equipment manufacturers rated parameters (設備廠商額定參數), and the Group also adopts advanced technologies or know-how for energy conservation, including but not limited to: (i) the non-pump system (無電泵系統) to reduce the electricity usage rate; (ii) the intermediate pressure cylinder start-up technology (中壓缸啟動技術) to reduce the energy consumption during the stages of testing and production; and (iii) the recycling of pebble coal to promote the utilization efficiency, etc.

The cost of electricity production of the Group and the average cost of electricity production of power generation companies selected by the 2017 Negative Report (VAT exclusive) for the six years ended 31 December 2015 are set out below:

	Cost of electricity production of the Group (excluding the cost of steam) *(RMB/kWh)*	**Cost of electricity production of the Group (including the cost of steam)** *(RMB/kWh)*	**Average cost of electricity production of power generation companies elected by the 2017 Negative Report** *(RMB/kWh)*
2010	0.201	0.258	–
2011	0.227	0.283	–
2012	0.214	0.256	0.325
2013	0.204	0.229	0.293
2014	0.176	0.190	0.276
2015	0.158	0.168	0.242

High utilization hours of power plants of the Group represent another cost advantage against its peers. As large amount of electricity is required during the production of aluminum products and the Group has steady and sufficient demands for electricity, most of the electricity generator units of the Group have been operated under full load most of the time, resulting in the relatively high utilization hours of the Group's power plants.

In addition, the outage hours and standby hours of power generator units generally are much lower than those of power generation companies in the PRC due to the Group's effective maintenance management program. Such maintenance management program includes but not limited to: (i) conducting daily assessment and maintenance of power generators to ensure stable operation of power generators; and (ii) conducting condition-based maintenance rather than planned maintenance to reduce the hours of maintenance. Condition-based maintenance identifies the abnormalities of the equipment, predicts the malfunctions of the equipment and maintains the equipment before actual malfunction occurs, based on the information provided by advanced status monitor and diagnosis technology, i.e. arranging maintenance plans and conducting maintenance based on the health status of the equipment. Planned maintenance is based on maintenance cycles to conduct preventive maintenance for the equipment by preparing a maintenance schedule.

Maintenance cycles can be divided into years, quarters, months or weeks. Planned maintenance is a kind of regular maintenance which is time consuming and lacks target. Certain equipment in fine condition may also be put under maintenance repeatedly. Condition-based maintenance maintains the equipment for specific problems affecting the safety and economical operation of equipment, which reduces unnecessary hours of equipment suspended from operation; (iii) enhancing the operating standards and the employee's safety awareness to reduce the occurrence of unplanned outages; (iv) adopting warm startup (溫態啟動) and hot startup (熱態啟動) approach to reduce the hours of startup of power plants; and (v) adopting sliding parameter shutdown (滑參數停機) approach to reduce the hours of maintenance. Sliding parameter shutdown reduces the time from standby status to maintenance, which reduces the overall hours of maintenance of power plants.

The utilization hours of the Group and average utilization hours of thermal power generation companies in the PRC for the six years ended 31 December 2015 are set out below:

	Average utilization hours of thermal power generation companies in the PRC[1] *(hours)*	**Utilization hours of the Group** *(hours)*	**Comparison**
2010	5,031	7,846	55.9%
2011	5,305	7,469	40.8%
2012	4,982	7,156	43.6%
2013	5,012	6,568	31.0%
2014	4,706	6,753	43.5%
2015	4,329	6,567	51.7%

Note 1: As the average utilization hours of part of the thermal power generation companies selected in the 2017 Negative Report for certain financial years are not available to the public, the average utilization hours of thermal power generation companies in the PRC are used instead for the purpose of comparison only. The data of the average utilization hours of thermal power generation companies is public information from the China Electricity Council (中國電力企業聯合會). Based on the Company's understanding, the China Electricity Council was founded in 1988 upon the approval of the State Council of the PRC, which is a national industry board for the power industry, a non-profit association, and has significant influence in this industry both domestically and internationally.

As shown in the above tables, the reasons that the cost of electricity production of the Group is lower than that of power generation companies selected by the 2017 Negative Report mainly include the following:

(i) the main difference between the Group and the power generation companies selected by the 2017 Negative Report is the significant volume of steam produced in the process of power generation, which can be used in the production of alumina and sold externally. The associated cost of steam is recorded separately from the cost of electricity production of the Group, which is a significant factor leading to the Group's cost of electricity production being lower than that of the power generation companies selected in the 2017 Negative Report. However, the 2017 Negative Report deliberately omitted to mention the aforesaid factor while presenting the cost of electricity production of the Group.

The revenue from sales of steam of the Group from 2010 to 2015 is set out below:

Year	**Revenue from sales of steam** *(RMB)*
2010	677,658,000
2011	697,642,000
2012	538,630,000
2013	176,841,000
2014	135,523,000
2015	55,934,000

The figures of the Group's production volume of steam, sales volume of steam and self-utilized volume of steam for production from 2010 to 2015 are set out below:

	For the year ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Production volume of steam *(ton'000)*	5,105.0	5,255.6	6,755.8	6,441.2	6,349.2	8,286.2
Sales volume of steam *(ton'000)*	5,105.0	5,255.6	4,057.7	1,332.2	1,020.9	409.3
Self-utilized volume of steam *(ton'000)*	Nil	Nil	2,698.1	5,109.0	5,328.2	7,876.9

As shown in the above two tables, the decrease of revenue from sales of steam from 2010 to 2015 is mainly attributable to the increase of self-utilized volume of steam, which resulted from the Group's own increasing production capacity and production volume of alumina.

(ii) the average utilization hours of power plants of the Group for the five years ended 31 December 2015 were much more than the average utilization hours of thermal power companies in the PRC. The average utilization hours may be affected by a series of factors, such as the maintenance measures adopted, the operation efficiency of the power generators, the stable requirements for power and the maintenance periods, etc.. Based on certain public information available to the Company, other companies' power plants may not be operating at full load due to the customers' limited demand in electricity, limited quota of electricity production (e.g. electricity from wind power generation and hydropower generation may be sold with priority or assigned with more quota).

(iii) the energy-conserving effects resulted from various technological innovations of the Group.

Moreover, the 2017 Negative Report alleged that according to the government's regulations, self-owned power plants are required to pay policy fees. As advised by the PRC legal adviser of the Group, as at the date of this announcement, the Group did not receive any notice requiring the Group to pay any relevant policy fees, including any governmental levies for the sale of electricity, as no relevant policies have been implemented in the area where the power plants of the Group are located.

The 2017 Negative Report also alleged that "the cost of externally sourced electricity for 2007 is calculated as RMB0.281/kWh, which is somehow significantly different from the RMB0.385/kWh disclosed in the Prospectus." The Board would like to clarify that as the Company entered into a long-term electricity supply agreement with Weiqiao Chuangye in June 2006, pursuant to which, the base price was RMB0.45 per kWh (inclusive of VAT, which equals to RMB0.385 per kWh exclusive of VAT) and subject to adjustment by reference to market price movements. RMB0.385/kWh is the base price of electricity (subject to adjustments) and RMB0.281/kWh alleged by the 2017 Negative Report is the actual procurement price (reflecting the adjustments based on the market price movements). The actual cost of externally-purchased electricity of RMB0.281/kWh for the year of 2007 was calculated through the actual purchase amount of electricity from external suppliers (RMB936,400,000) divided by the volume of electricity purchased from external suppliers (3,335,976,884 kWh), both of which were disclosed in pages 132 and 133 of the Prospectus, respectively.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) obtained the internal financial accounts and other supporting documents (if applicable) from the finance department of the Group and downloaded the annual reports of the Company for 2010 to 2015 from HKEX News;

(b) obtained the calculation sheets of self-supplied electricity and accounting records for production costs of self-supplied electricity, procurement costs, depreciation, staff salary and all other items, for each of the financial years from 2013 to 2016;

(c) reviewed and analyzed the actual production costs of self-supplied electricity of relevant business units for 2013 to 2016;

(d) carried out tests on the cost of self-supplied electricity for the period 2010 to 2012 with emphasis on the cost of procurement of coal;

(e) understood the procedures, calculations and measurement for electricity production, cost distribution methods and relevant accounting methods, through interviews with the Group's management;

(f) reviewed the Company's accounting policies to ensure that the accounting treatments and disclosures are in compliance with International Accounting Standards 2 and 16, regarding inventory and depreciation of fixed assets, respectively;

(g) randomly selected samples from the salary costs carried forward and depreciation costs carried forward;

(h) carried out sample testing to verify the consistency between the quantity on weighing lists and delivery receipts of coal and all other supporting documents, including but not limited to purchasing agreements, purchasing orders, statements of accounts, invoices from suppliers, accounting vouchers and bank receipts, to ensure appropriate recognition of coal procurement from 2010 to 2016 in the accounting records;

(i) reviewed and analyzed the allocation formula in respect of direct labour cost of self-supplied electricity to ensure appropriate recognition of direct labour cost in the accounting records;

(j) reviewed and analyzed the allocation formula for production management cost of self-supplied electricity, and conducted same testing on the relevant evidential documents, to ensure appropriate recognition of production management cost in the accounting records and supported by appropriate documentation;

(k) reviewed and analyzed cost allocation ratio, i.e. the heat-to-power ratio, for allocation of the cost of self-supplied electricity and cost of steam, to ensure appropriate recognition of production cost in the accounting records;

(l) carried out sample testing to relevant accounting documents to ensure appropriate recognition of direct labour costs and production management costs in accounting records, and are supported by relevant evidential documents;

(m) analyzed the trend for the price of self-supplied electricity from 2013 to 2016;

(n) understood the cost structure of power generation and the procedures for coal procurement, through interviews and inquiry with the Group's management;

(o) obtained the relevant accounting records for cost of electricity production from 2013 to 2016, cost calculation sheets, production reports, meter records and heat-to-power ratios for each month from 2013 to 2016, and obtained the relevant accounting records for coal procurement containing the aggregate amount and quantity from the Company's accounting system;

(p) conducted trend analysis on the cost of self-supplied electricity and externally-purchased electricity and the price of coal from 2013 to 2016, checking whether any fluctuations were directly proportional to coal price and seeing whether there were any anomalies;

(q) understood the relationship between the Group's coal purchase price, electricity production cost and the coal price quoted on Qinhuangdao Coal Net, through interviews with the Group's management;

(r) conducted trend analysis and compared the Company's coal procurement price and the market price of coal with calorific power of 5000 kilocalories per kilogram quoted on the Qinhuangdao Coal Net;

(s) obtained the ledgers for fixed assets in respect of all power generator models from 2013 to 2016;

(t) understood whether the Company purchased new models of power generators and whether there was any equipment to enhance the efficiency of the power generators, through interviews with the Group's management;

(u) identified the model of relevant power generators in the ledgers for fixed assets, obtained operational manuals of the power generators (or equivalent documents, such as asset cards of the power generators), or any other supporting documents in respect of the equipment enhancement for the review of unit production capacity of each model of power generator (in megawatts);

(v) identified the model of relevant power generator in the ledgers for fixed assets and verified the unit power capacity of each sampled model of power generator through on-site inspections;

(w) conducted trend analysis and conducted review procedures to verify that the efficiency of the power generator units, i.e. unit production capacity, from 2013 to 2016;

(x) recalculated the average electricity cost;

(y) compared and analyzed the average electricity cost disclosed against and the separate disclosure of the cost of self-supplied electricity and the cost of externally-purchased electricity;

(z) understood the reasons for the disclosure of the price of average electricity cost (tax included) since 2015, in lieu of the separate disclosure of the price of self-supplied electricity and externally-purchased electricity (tax excluded) for previous years, through interviews with the management of the Group;

(aa) understood the calculation formula of standard coal consumption for electricity supply, through interviews and enquiries with the management of the Group; and

(bb) calculated the consumption rate of coal in electricity production, compared it with the date published by the National Energy Administration (國家能源局), analyzed the trends based on the cost of coal and monthly electricity production levels and checked for any differences with the alleged standard coal consumption rate for electricity production in the 2017 Negative Report.

AUP Findings

Based on the Agreed-upon Procedures:

(a) BT Risk Assurance verified selected samples of the major cost components of self-supplied electricity production and carried out various analyses and comparisons on both the Group and its competitors. BT Risk Assurance did not find any anomalies. Further, having obtained the relevant accounting records for the cost of electricity production from 2010 to 2016, BT Risk Assurance recalculated the average electricity costs, which were used to conduct a trend analysis against the costs of self-supplied electricity and externally-purchased electricity. It was found that these three cost figures followed similar trends and BT Risk Assurance did not identify any anomalies.

(b) BT Risk Assurance obtained and reviewed the Group's existing financial management policies, and finds that (i) the Group's current valuation method relating to inventory and costs satisfies the accounting requirement of International Accounting Standard 2 – Inventories, and (ii) the Group's current depreciation method relating to fixed assets satisfies the accounting requirement of International Accounting Standard 16 – Fixed Assets.

(c) BT Risk Assurance conducted sample testings for coal procurement transactions and verified the quantities as listed on the weighing lists against that on the coal delivery receipts, as well as having checked all the relevant supporting documents, including purchase agreements, purchase orders, statement of accounts, invoices from suppliers, accounting vouchers and bank receipts, to ensure the appropriate recognition of coal procurement in the accounting records for 2010 to 2016. BT Risk Assurance did not discover any instances where records were incorrect or seemed to display any anomalies.

(d) BT Risk Assurance verified samples of various accounting documents, such as payroll statements and bank payment records, purchase contracts/orders of fixed assets, invoices from suppliers and accounting records relating to fixed assets to ensure appropriate recognition of direct labour costs and production management costs in the accounting records, which were supported by relevant evidential documents. BT Risk Assurance did not discover any instances where records were incorrect or seemed to display any anomalies.

(e) BT Risk Assurance obtained the Group's trial balances for 2010 to 2016 and conducted an analysis of the cost of purchasing coal from suppliers. BT Risk Assurance found that coal was purchased through monthly tendering process, whereby prices between multiple suppliers were compared with each other and costs were reduced to their lowest. BT Risk Assurance also found that the Group had contracted with various suppliers, and the cost of coal sourced from these suppliers, regardless of their sizes, did not differ significantly. Therefore, with respect to the Group's purchasing cost of coal, BT Risk Assurance did not find any anomalies or unreasonable circumstances.

According to BT Risk Assurance's analysis, the Group is able to maintain relatively low costs as it is able to continuously increase the proportion of self-supplied electricity consumption for the following reasons: (i) the Group owns an independent power grid and does not need to connect to the other power grids and thereby enabling the Group to save on the relevant fees; (ii) the Group's production units produces steam as a by-product, which is used in the production of alumina to effectively decreases the cost of self-supplied electricity; and (iii) the utilization rate of the Group's production units is relatively higher as compared to others in the industry, where the higher the utilization rate, the higher the operational efficiency.

View of the Company and the Audit Committee

The Company and the Audit Committee note that BT Risk Assurance had performed appropriate and comprehensive procedures with respect to the Group's cost of electricity production from 2010 to 2015, and did not identify any anomalies. In addition, BT Risk Assurance had also analyzed the Group's cost of electricity production for aluminum products as part of its Agreed-upon Procedures with respect to the Group's profitability ratio for the period from 2010 to 2015. Based on the aforesaid AUP Findings, the Company and the Audit Committee are of the view that BT Risk Assurance had provided the appropriate basis for the Company's refutation of the relevant methodologies and results that purportedly supported the relevant allegations set out in the 2017 Negative Report for the period from 2010 to 2015.

In view of the above, the Company and the Audit Committee are of the view that the relevant allegations in the 2017 Negative Report have been sufficiently addressed.

2.2. *Method 1: 2015 Coal Price and Consumption Suggest Generation Cost 36% Higher than Reported*

The Company's Response

(1) Power supply standard coal consumption at about 350g per kWh

The 2017 Negative Report alleged that the Company's consumption rate of standard coal used in power generation was about 350g per kWh (referred to the 2017 Negative Report as the "power supply standard coal consumption").

Standard coal is coal with a heat value of 7,000 kilocalories per kilogram, while the heat value of raw coal is determined based on actual testing of power plants. The Group purchases and uses raw coal with a heat value ranging from 4,800 to 6,500 kilocalories per kilogram, which have been confirmed by key coal suppliers of the Group in writing. The Directors hereby clarify that the figures in Exhibit 13 of the 2017 Negative Report are not the power supply standard coal consumption of Weiqiao A&P but rather the consumption rate of raw coal used in the power generation of Weiqiao A&P (the "**Power Supply Raw Coal Consumption**"). The Power Supply Raw Coal Consumption of the Group for the six years ended 31 December 2015 is set out below (excluding the apportionment of costs to the production of steam):

	For the years ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Power Supply Raw Coal Consumption *(g/kWh)*	300.00	305.41	322.04	356.05	355.75	381.84

The main reasons for the year-by-year increase of Power Supply Raw Coal Consumption of the Group from 2010 to 2015 include the following:

(i) the Group had improved its power generator units so as to comply with the higher environment protection standards. Such improvement would increase the frequency of launching and shutting down the power generator units, which increased coal consumption. In addition, after such improvement, the electricity consumption of the power generator units had increased, which resulted in the decrease of the actual electricity produced by the power generator units; and

(ii) the Group demands for much more electricity than steam in recent years, which results in the year-by-year decrease of the ratio of heat-to-electricity and higher power supply coal consumption.

(2) Price of standard coal

The 2017 Negative Report mistreated the Group's Power Supply Raw Coal Consumption as the Group's power supply standard coal consumption. As such, for the consistency of calculation, the price of raw coal should be adopted instead of the price of standard coal. The usage prices of raw coal of the Group (VAT exclusive) for the six years ended 31 December 2015 are set out below:

	For the years ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Usage price of raw coal *(RMB/ton)*	587.43	646.61	570.08	471.58	390.54	291.51

(3) Other costs (excluding fuel)

The 2017 Negative Report selected the "other costs" of peers to estimate the operating costs of the Group other than fuel. The Directors confirm that the operating costs other than fuel of the Group are lower than all of those peers selected by the 2017 Negative Report. The operating costs other than fuel of the Group for the six years ended 31 December 2015 are set out below:

	For the years ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Operating costs other than fuel *(RMB/kWh)*	0.024	0.030	0.030	0.036	0.037	0.046

The reasons that the Group incurred lower operating costs (other than fuel) are set out below:

(i) during the process of electricity production, the thermal power plants of the Group are also able to generate a large volume of steam, a proportion of which is used by the Group in the production of alumina and the excess is sold to external customers which generates significant revenue. The cost of steam, both used in the self-supply of alumina as well as the excess sold externally, had been separated from the Group's operating costs (other than fuel) for accounting purposes, therefore causing the Group to have a lower total cost of electricity production;

(ii) the Group's considerably high average utilization hours of power generators enhanced the operational efficiency of the power plants of the Group and therefore decreased the operation cost of electricity production; and

(iii) the Group strictly controls the construction costs of power plants. The decrease of such construction costs of power plants of the Group can reduce unit depreciation costs of electricity. For further details, please refer to page 11 of this announcement.

Based on the above refutation/clarification, for the purpose of demonstrating the incorrectness of Exhibit 16 in the 2017 Negative Report, the table with relevant figures in relation to cost of electricity production of the Group is set out below:

	For the years ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Usage price of raw coal [1] (VAT exclusive) *(RMB/ton)*	587.43	646.61	570.08	471.58	390.54	291.51
Power Supply Raw Coal Consumption *(g/kWh)*	300.00	305.41	322.04	356.05	355.75	381.84
Fuel cost [2] *(RMB/kWh)*	0.177	0.197	0.184	0.168	0.139	0.112
Operating costs other than fuel *(RMB/kWh)*	0.024	0.030	0.030	0.036	0.037	0.046
Cost of electricity production [3] *(RMB/kWh)*	0.201	0.227	0.214	0.204	0.176	0.158

Note 1: The Group adopts usage price of raw coal instead of purchase price of raw coal as the Group may use part of the coal stockpile from previous year and the usage price of raw coal can better reflect the actual fuel cost. Purchase price of raw coal refers to the average purchase price of the raw coal purchased by the Group during the year. Usage price of raw coal refers to the average price of the raw coal actually used by the Group during the year. The Group normally has stockpile coal, which can be used for 15 to 30 days, to ensure the stable supply of raw coal for the stable operation of power plants of the Group. The Board considers that usage price of raw coal would be the best mean to analyze cost of electricity production instead of purchase price of raw coal as usages price of raw coal takes the effect of the price of stockpile coal into consideration.

Note 2: Fuel cost = usage price of raw coal x Power Supply Raw Coal Consumption/1,000,000.

Note 3: Cost of electricity production = fuel cost + operating costs other than fuel.

Agreed-upon Procedures Performed by BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

AUP Findings

Based on the Agreed-upon Procedures BT Risk Assurance calculated the consumption rate of coal used in electricity production, compared it with the data published by the National Energy Administration and analysed the trend based on the cost of coal and monthly electricity production levels. BT Risk Assurance found that the Group's coal consumption of electricity supply continuously increased from 2014 to 2016 but BT Risk Assurance did not find any anomalies.

Please refer to paragraphs (c) to (e) of the Audit Findings as set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

Please also refer to the view of the Company and the Audit Committee on the relevant allegations set out in the 2017 Negative Report as set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

2.3. Method 2: Ex-staff Says 2015 Generation Cost at RMB0.231-0.239/kWh

The Company's Response

The 2017 Negative Report alleged that "RMB0.35/kWh" is the unit cost of the self-supplied electricity of the Company based on unreliable sources. The Directors confirm that in fact, as employee benefits, the electricity purchase price of the Group's employees residing in the living quarters of the Group is RMB0.35 per kWh (VAT inclusive).

The 2017 Negative Report also alleged that through communication with an ex-employee of the Group, the electricity production cost of the power plant managed by the ex-employee is RMB0.27-0.28 per kWh (VAT inclusive). The Group seriously doubts the identity and position of such ex-employee. As there is no material showing that such ex-employee knows the electricity production cost of the Group, the Group cannot confirm the source of the electricity production cost as stated by such ex-employee. The Group has never calculated its electricity production cost of one single power plant.

Agreed-upon Procedures Performed by BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

AUP Findings

Please refer to the AUP Findings set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

2.4. Method 3: Data from Industry Consultancy Confirm the Previous Two Methods

The Company's Response

The 2017 Negative Report used the data from an industry consultant to allege the under-reported cost of self-supplied electricity of the Company. The Directors seriously doubt the accuracy of such data. The costs of electricity production of Weiqiao A&P, on standalone basis, (VAT inclusive and exclusive) for the six years ended 31 December 2015, are set out below:

	For the years ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Production cost of Weiqiao A&P *(VAT inclusive)*	0.235	0.266	0.250	0.236	0.203	0.185
Production cost of Weiqiao A&P *(VAT exclusive)*	0.201	0.227	0.214	0.201	0.173	0.158

The 2017 Negative Report assumed Binzhou Gaoxin and the Company have similar cost of electricity production, as they both have their power plants in the same region installed with similar power generators and operated as a single business. The Directors are of the view that such assumption is incorrect and baseless. Taking similar power generators as an example, even power generators with the same capacity may have different heat-to-power ratios, outage and maintenance hours, labor cost, purchase costs of raw materials and operational efficiency, which may lead to different costs of electricity production.

Agreed-upon Procedures Performed by BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

AUP Findings

Please refer to the AUP Findings set out in "*2.1 Retail Price 1/3 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

View of the Company and the Audit Committee

The Company and the Audit Committee are of the view that the AUP Findings have sufficiently refuted the relevant allegations in the 2017 Negative Report with respect to the costs of electricity production for the financial years from 2010 to 2015. Further, the costs of electricity production of Weiqiao A&P alone, as tabled above, is sufficient to show that the industry consultant's estimates and assumptions contained in the 2017 Negative Report were wrong. Please also refer to the view of the Company and the Audit Committee as set out in "*2.1 Retail Price 1/2 below National Grid's Does Not Equal to Generation Costs 1/3 below Peers*".

2.5. Illicit Gains of RMB13.6 billion from Under-reporting and "Third-party" Subsidies

The Company's Response

The 2017 Negative Report alleged that the Company had under-reported RMB11.7 billion self-supplied electricity costs from 2010 to 2015. The Directors are of the view that the Group had not under-reported self-supplied electricity cost from 2010 to 2015, and all financial information of the Company disclosed in its annual reports from 2010 to 2015 is true and accurate.

The 2017 Negative Report also alleged that Binzhou Gaoxin provided about RMB1.9 billion of subsidies to the Company. As disclosed on page 133 of the Prospectus, the Company entered into an electricity supply agreement with Binzhou Gaoxin in June 2008, under which Binzhou Gaoxin started to supply electricity to the Company in June 2008. In the PRC, as off-the-grid electricity does not use the state-owned power grid system for transmission, the price of off-the-grid electricity does not include the grid transmission fee, and as a result, the price of off-the-grid electricity is lower than that of on-the-grid electricity. Pursuant to such electricity supply agreement (based on normal commercial terms), the standard price is RMB0.34 per kWh (VAT inclusive), assuming that the standard price of coal with a heat value of 5,000 kilocalories per kilogram is at RMB700 per ton (VAT inclusive), which is subject to adjustment through negotiation if the price fluctuation of coal exceeds 20%. Such electricity supply agreement does not have a definite term and it shall remain effective unless it is terminated by a 90-day prior written notice provided by any party. Pursuant to the same electricity supply agreement, Binzhou Gaoxin shall be responsible for building a power network to connect the Company's facilities to the power generators. Such construction cost was reimbursed by the Company and was amortized and included in the electricity price that the Company actually paid to Binzhou Gaoxin from June 2008 to December 2009, which was fully settled as of 31 December 2009. The Company has recognized such construction cost as part of the electricity cost in the Company's cost of sales in 2008 and 2009.

Set out below is the average electricity purchase price for the Group to procure electricity from Binzhou Gaoxin and the standard price for the power suppliers to sell electricity to the state-owned grid of Shandong Province, the PRC:

		For the years ended 31 December		For the nine months ended 30 September
	2007	**2008**	**2009**	**2010**
Average electricity purchase price [1] *(RMB/kWh)*	–	0.441	0.451	0.291
Standard price *(RMB/kWh)*	0.303	0.311	0.318	0.318

Note 1: As disclosed on page 133 of the Prospectus, the average electricity prices for 2008 and 2009 also include the amortization of construction cost of the power network by Binzhou Gaoxin. The construction cost for the power network connecting the Company's facilities to Binzhou Gaoxin's generators was fully amortized by the end of 2009.

The standard price is fixed by the government of the PRC, which is the basic price for the power suppliers to sell electricity to the state-owned grid. The actual electricity price shall be adjusted from the standard price after taking into account the technology adopted, coal quality, operation scale of the supplier and other factors. The Directors confirmed that the electricity price for Binzhou Gaoxin to provide electricity to the Group was determined by Binzhou Gaoxin and the Company after arm's length negotiations. The pricing terms with Binzhou Gaoxin from 2010 to 2016 were made with reference to the electricity supply agreement, and the annual electricity purchase amount and the average electricity purchase prices are as follows:

Year	**Annual electricity purchase amount *(10,000 kWh)***	**Average electricity purchase price *(RMB/kWh)* *(VAT inclusive)***
2010	645,828.11	0.34
2011	1,208,188.81	0.34
2012	1,032,488.40	0.34
2013	1,112,961.38	0.34
2014	1,206,243.29	0.34
2015	934,564.08	0.32
2016	1,327,989.49	0.31
Total	**7,468,263.55**	**0.33**

As at the date of this announcement, the Company is still in performance of such electricity supply agreement based on the terms and conditions as disclosed in the Prospectus. Therefore, the claim regarding "RMB1.9 billion subsidies" is untrue and unfounded and is misleading information to the Shareholders and potential investors of the Company.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) inquired the management of the Group about its response to the allegation of undisclosed related parties in the 2017 Negative Report;

(b) inquired the management of the Group about the control procedures for relationships with related parties and related-party transactions;

(c) inquired the management of the Group whether the fact that Binzhou Gaoxin was as the sole/major external electricity supplier was based on commercial reasons (e.g. due to supply pricing and sustainable supply amount);

(d) obtained the latest electricity purchase agreement entered into with Binzhou Gaoxin;

(e) inquired the management of the Group about the relationship between Binzhou Gaoxin and the Group;

(f) inquired the management of the Group on whether the Group appointed legal counsels and adviser(s) to provide assistance with respect to the disclosure of related-party transactions;

(g) requested the management of the Group to identify related-party transactions for evaluation;

(h) obtained clear guidelines and internal control procedures for related-party transactions, including authorization required for related-party transactions, terms of transactions and the arrangement for transactions;

(i) inquired the Group's relevant responsible staff on how they identify, record, conclude and disclose related-party transactions;

(j) checked whether the management of the Group made relevant disclosure in the Group's announcement in respect of related-party transactions identified in (i) above;

(k) obtained the information of the Group and Binzhou Gaoxin from the State Administration for Industry and Commerce and National Enterprise Credit Information Publicity System, and reviewed the relationship between the Group and Binzhou Gaoxin;

(l) determined whether Binzhou Gaoxin was a related-party of the Company based on the findings from the review by BT Risk Assurance;

(m) randomly selected samples from records of externally-purchased electricity from Binzhou Gaoxin and Weiqiao Chuangye, as applicable, for the period from 2007 to 2015 and conducted tests to verify the validity of the transactions for purchase of electricity during the respective periods and whether such transactions were supported by the relevant documents; and

(n) reviewed the relevant evidential documents, including purchasing contracts, invoices, meter reading cards, accounting vouchers and bank payment records to verify the existence of the relevant transactions and the accurate recording of such transaction in the Group's accounting ledgers.

AUP Findings

According to the Agreed-upon Procedures carried out by BT Risk Assurance:

(a) BT Risk Assurance understood from the Group that Binzhou Gaoxin's ultimate shareholder is Zouping Economic and Technological Development Zone State-owned Assets Operation and Management Center*（鄒平經濟技術開發區國有資產運營管理中心）. As the Group's controlling shareholder is a natural person and the Directors did not hold any positions in Binzhou Gaoxin and the directors of Binzhou Gaoxin did not hold any directorship in the Group, both parties had no connection in respect of their shareholding structure or senior management. Hence, Binzhou Gaoxin is not a related party to the Group and the transactions between Binzhou Gaoxin and the Group were not related-party transactions. Further, the arrangements for the transactions regarding electricity and alumina were adequately disclosed in the Prospectus.

(b) BT Risk Assurance further understood from the Group that with respect to the Group's control procedures for the relationship and transactions with related parties, the Group has prepared the "*internal approval management system for connected transactions*" in accordance with the Listing Rules to manage the approval and announcement of transactions with connected persons.

(c) In order to verify the relationship between the Group and Binzhou Gaoxin, in addition to obtaining the business information of all operating entities of the Group from the State Administration for Industry and Commerce of the PRC and the National Enterprise Credit Information Publicity System, BT Risk Assurance has also reviewed the business information records of Binzhou Gaoxin, its direct shareholder Shandong Zouping Yunda Investment and Operation Co., Ltd*（山東鄒平運達投資經營有限公司）and Shandong Zouping Kaida Real Estate Co., Ltd.*（山東鄒平開達房地產有限公司）and these two companies' direct shareholder Shandong Luzhong Yunda Logistics Co., Ltd*（山東魯中運達物流有限公司）. BT Risk Assurance confirmed that its ultimate shareholder is Zouping Economic and Technological Development Zone State-owned Assets Operation and Management Center, which is engaged in the operational management of state-owned assets, and not a private enterprise. By comparing the two parties, BT Risk Assurance confirmed that there is no connection in respect of shareholding structure or senior management (including directorships) between the principal operating companies of the Group and Binzhou Gaoxin and its shareholders. BT Risk Assurance's findings showed that Binzhou Gaoxin has no connection to the Group and is an independent third party.

(d) With respect to the six financial years from 2007 to 2012, BT Risk Assurance collected, from one of the Group's operating entities that purchased electricity externally, two months of samples every year for the purchases and reviewed the relevant documents including meter reading cards, purchasing contracts, invoices, purchase account records and payment records. With respect to the four financial years from 2013 to 2016, BT Risk Assurance collected for two months of similar samples every year from two of the Group's operating entities that purchased electricity externally. BT Risk Assurance did not find any accounting errors or anomalies with respect to the aforesaid.

View of the Company and the Audit Committee

As set out above, the Group and Binzhou Gaoxin have entered into a long term electricity supply agreement since 2008, which has been disclosed in the Prospectus. The acquisition of electricity by the Group from Binzhou Goaxin had always been based on the pricing formulas set out in the aforesaid electricity supply agreement, which has not changed. The Directors also confirmed that the agreement was arrived at after arm's length negotiation, and the price is higher than the Group's own cost of electricity production. Finally, as set out above, the AUP Findings have confirmed that Binzhou Gaoxin is an independent third party to the Group. In view of the aforesaid, the Company and the Audit Committee are of the view that the relevant allegation has been sufficiently addressed.

Part 3 Misrepresentation of RMB8.1 billon Alumina Costs

3.1. Cost of Self-supplied Alumina Under-reported by RMB2.0 billion

The Company's Response

The 2017 Negative Report alleged that the Company has RMB2.0 billion under-reported cost of self-supplied alumina. Such allegation is based on the so-called "reasonable" assumption that the alumina production costs of the Company are similar to those of Binzhou Gaoxin, and calculation of the difference between the alumina production costs of Binzhou Gaoxin provided by an "industry consultant" and those disclosed by the Group is the under-reported alumina production costs of Group. However, the 2017 Negative Report did not sufficiently demonstrate that the relevant figures of the alumina production costs of Binzhou Gaoxin provided by this so-called "industry consultant" were lawful, true and accurate. Therefore, the Company doubts the accuracy of the alumina production costs of Binzhou Gaoxin provided by this so-called "industry consultant" in the 2017 Negative Report, and would not rule out the possibility that Emerson had deliberately fabricated relevant statistics for its improper purpose as well.

In addition, the Group is not in an appropriate position to comment on the production cost of similar products of other companies. However, the Company would like to emphasize that even if companies in the industry of aluminum production may have similar business models or cost structures, their alumina production costs may still vary from each other. Generally, reasons for low alumina production costs may include the strict management of production process, purchasing in bulk, sound maintenance and efficient operation of the advanced production facilities, and employees' skills, etc. The Group has been endeavoring to reduce the alumina production costs by different methods as mentioned above. For further details, please refer to the pages 12 and 13 of this announcement. The self-supplied alumina production costs of the Group for the four years ended 31 December 2015 are set out below:

	The Group's self-supplied alumina production costs (VAT exclusive)				
	Bauxite	**Energy**[1]	**Caustic soda**	**Other costs**[2]	**Full costs**
	(RMB/ton)	*(RMB/ton)*	*(RMB/ton)*	*(RMB/ton)*	*(RMB/ton)*
2012	848.17	294.96	280.21	210.18	1,633.53
2013	964.38	287.40	235.92	176.82	1,664.53
2014	934.10	283.88	209.03	180.57	1,607.58
2015	1,013.96	266.64	227.35	205.67	1,713.62

Note 1: Energy costs include the cost of steam. The cost of steam per ton of self-supplied alumina produced for the years 2012, 2013, 2014 and 2015 are RMB138.18, RMB143.84, RMB153.45 and RMB159.83, respectively.

Note 2: According to the calculation approach provided in the 2017 Negative Report, other costs include new water, labor costs, calcination costs, depreciation costs and others.

As shown in the table above, the major factor for the difference between the figures set out in the table above and those in the 2017 Negative Report is bauxite resources. For details of the Group's strong bargaining power in procurement of bauxite, please refer to page 13 of this announcement.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) requested internal financial accounts and other supporting documents (if applicable) from the finance department of the Company and downloaded the annual reports of the company for 2013 to 2015 from HKEX News;

(b) understood the cost allocation formula of self-supplied alumina, through interviews and inquiries with the management of the Group;

(c) reviewed the Company's accounting policies to ensure that the accounting treatment and disclosure were in compliance with International Accounting Standards 2 and 16, regarding inventory and depreciation of fixed assets, respectively;

(d) randomly selected samples from weighing lists during 2012 to 2016 and transactions for the purchase of major raw materials for production of alumina (e.g. bauxite) and verified that the selected transactions were valid during 2012 to 2016, which were supported by relevant documents;

(e) reviewed the relevant evidential documents of major transactions for the purchase of raw material, including purchasing contracts, invoices, weighing list, production cost tables (or equivalent documents), accounting vouchers and bank payment records to verify the existence of the relevant transactions and the accurate recording of such transactions in the Group's accounting ledgers;

(f) reviewed and analyzed the cost allocation formula/basis for production management costs of self-supplied alumina (including depreciation cost and maintenance cost) to ensure appropriate recognition of production management costs in the accounting record;

(g) randomly selected samples from the production cost tables (or equivalent documents) to verify direct labor costs and checked the relevant evidential documents on the samples, including labor contracts, attendance records, payroll records, accounting vouchers and bank payment records to ensure appropriate recognition of direct labor costs in the accounting record;

(h) randomly selected samples from the production cost tables (or equivalent documents) to verify production management cost (including depreciation cost and maintenance cost), checked the relevant proof of the samples, including but not limited to purchasing contracts, purchasing orders, supplier invoices, consumption list of maintenance materials, ledgers of fixed assets (depreciation included), accounting vouchers and bank payment record to ensure appropriate recognition of production and management cost in the accounting record;

(i) obtained the information of all the relevant companies from the National Enterprise Credit Information Publicity System established by the State Administration for Industry and Commerce, where information of all the enterprises established in the PRC can be found; and

(j) reviewed the information of Binzhou Gaoxin, Shandong Zouping Yunda Investment and Operation Co., Ltd* (山東鄒平運達投資經營有限公司) and Shandong Kaida Real Estate Co., Ltd.* (山東鄒平開達房地產有限公司) which are the two direct shareholders of Binzhou Gaoxin, and Shandong Luzhong Yunda Logistics Co., Ltd* (山東魯中運達物流有限公司) which is the direct shareholder of the two aforesaid companies.

AUP Findings

Based on the Agreed-upon Procedures:

(a) BT Risk Assurance obtained and reviewed the Group's existing financial management policies, and finds that (i) the Group's current valuation method relating to inventory and costs satisfies the accounting requirement of International Accounting Standard 2 – Inventories, and (ii) the Group's current depreciation method relating to fixed assets satisfies the accounting requirement of International Accounting Standard 16 – Property, Plant and Equipment.

(b) BT Risk Assurance randomly selected samples from weighing lists during 2010 to 2016 and procurement samples of major raw materials for the production of alumina (e.g. bauxite). BT Risk Assurance verified the relevant selected transactions during 2010 to 2016 and found that they were valid and supported by relevant document.

(c) BT Risk Assurance reviewed the relevant evidential documents of the samples provided to BT Risk Assurances by the Group, including weighing lists, customs lists, delivery receipts, purchase agreement, supplier invoices, purchasing vouchers, payment records etc., and did not find any accounting errors or anomalies.

(d) With respect to the four financial years from 2013 to 2016, BT Risk Assurances collected from each of the Group's operating entities with alumina production capabilities, wage samples and monthly depreciation samples for two months, and reviewed the relevant documents including accounting vouchers, payment records and cost of carry-over records. BT Risk Assurance did not find any accounting errors or anomalies with respect to the aforesaid. With respect to the three financial years from 2010 to 2012, BT Risk Assurance carried out tests on the cost of self-supplied alumina with emphasis on the cost of major raw materials for the production of alumina (e.g. bauxite).

Based on the findings of the above Agreed-upon Procedures, BT Risk Assurance did not find any anomalies with respect to the production costs of the Group's self-supplied alumina.

In respect of the relationship between the Group and Binzhou Gaoxin, BT Risk Assurance is of the view that the Group has no relationship with Binzhou Gaoxin and its shareholders in terms of shareholding structure and directors, etc. and Binzhou Gaoxin is an independent third party to the Company.

For further details on the AUP Findings on the alleged connection between Binzhou Gaoxin and the Group, please refer to the disclosure on pages 42 and 43 of this announcement.

3.2. External Alumina Subsidies Totalled RMB6.1 billion

The Company's Response

The 2017 Negative Report alleged that, from 2007 to 2015, the Company received subsidies from Weiqiao Chuangye and Binzhou Gaoxin which amounted to approximately RMB1.3 billion and RMB4.8 billion, respectively. The Company has made clarification and rebuttals against the allegations of obtaining subsidies from Weiqiao Chuangye and Binzhou Gaoxin in the following paragraph and paragraph 3.3, respectively. As such, the Directors are of the view that the so-called subsidies in the 2017 Negative Report are unfounded speculations and do not rule out the possibility of its intention to deliberately mislead the Shareholders and potential investors of the Company.

The 2017 Negative Report alleged that the Company received subsidies of approximately RMB1.3 billion from Weiqiao Chuangye from 2007 to 2015. The Company has disclosed relevant arrangement in detail in the Prospectus, and there were no so-called subsidies. For further details, please see pages 163 to 166 of the Prospectus.

Moreover, the 2017 Negative Report alleged that the reasons for low alumina prices disclosed in the Prospectus are ludicrous. The Company is not in an appropriate position to comment on the financial performance and condition of other companies. From January 2010, the Group no longer purchased alumina from Weiqiao Chuangye and instead Binzhou Gaoxin become the supplier of alumina of the Group as Binzhou Gaoxin acquired the alumina production facilities from Weiqiao Chuangye. Among others, geographical proximity is an important factor in the selection of supply of alumina as it reduces the costs associated with transportation of such materials. This contributed to the Group's selection of Binzhou Gaoxin as its supplier for alumina, as Binzhou Gaoxin's factory premises is next to that of the Group. The lower prices which Binzhou Gaoxin can offer to the Group due to such geographical proximity are also reflected in the basis for the determination alumina prices purchased from Binzhou Gaoxin, as fully disclosed in the Prospectus. At the same time, the Company believes the price of alumina sold by Binzhou Gaoxin is not artificially low as since in 2010, the average purchase prices of alumina from Binzhou Gaoxin for each year 2010 to 2015 were all higher than the Group's production costs of alumina in the corresponding years. As such, the Company is of the view that Binzhou Gaoxin did not sell alumina to the Group from 2010 to 2015 with a view to providing subsidies to the Group. The Group's production costs of alumina and the average purchase price of alumina from Binzhou Gaoxin for each of the six years ended 31 December 2015 are set out below:

	For the year ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Cost of alumina production (VAT exclusive) *(RMB/ton)*	–	–	1,634	1,665	1,608	1,714
Average purchase price of alumina from Binzhou Gaoxin (VAT exclusive) *(RMB/ton)*	1,621	1,870	1,821	1,880	1,880	1,877

Therefore, the allegation in the 2017 Negative Report that the Company received subsidies of approximately RMB4.8 billion from Binzhou Gaoxin is mere speculation, intended to maliciously mislead the Shareholders and potential investors of the Company.

In relation to the Binzhou Gaoxin, as disclosed in the announcement of the Company dated 20 December 2016, Binzhou Gaoxin is ultimately owned by Zouping Economic and Technological Development Zone State-owned Assets Operation and Management Center* (鄒平經濟技術開發區國有資產運營管理中心) and is an independent third party to the Group. The Company has made relevant disclosures (including the pricing and discount mechanism of the alumina supply agreement entered into between the Group and Binzhou Gaoxin) on pages 143 to 147 of the Prospectus. As at the date of this announcement, the Company is still in performance of such alumina supply agreement based on its terms and conditions as disclosed in the Prospectus. The Directors confirm that the Company's purchase prices of alumina and electricity from Binzhou Gaoxin were based on arm's length negotiation and on normal commercial terms that are fair and reasonable.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) requested internal financial account and other supporting documents (if applicable) from the finance department of the Company and downloaded the annual reports of the company for 2010 to 2015 from HKEX News;

(b) carried out ratio analysis by comparing the volume of purchase from Binzhou Gaoxin with the total purchase volume;

(c) understood the procurement and transaction flow of alumina, through interviews and inquiries made with the management of the Group;

(d) randomly selected sample purchase transactions of alumina from Binzhou Gaoxin based on the documents provided by the Group and verified that the selected transactions were valid during 2010 to 2016 and supported by relevant documents;

(e) reviewed the relevant evidential documents, including purchase contracts, invoices, accounting vouchers and bank payment record to verify the existence of the relevant transactions and the accurate recording of such transactions in relevant accounting ledgers;

(f) reviewed the details of sample prepayments and traced purchasing contracts, accounting vouchers and bank payment records, to verify whether there were any anomalies in the prepayments to Binzhou Gaoxin; and

(g) conducted trend analysis on the market price of alumina and compared that with the purchase price of alumina from Binzhou Gaoxin and the cost of self-supplied alumina of the Group.

AUP Findings

Based on the Agreed-upon Procedures:

(a) BT Risk Assurances found that the Group mainly acquires its alumina from Binzhou Gaoxin through Weiqiao A&P. For the seven financial years from 2010 to 2016, BT Risk Assurances collected two months of each financial year of alumina purchasing samples from Weiqiao A&P, and requested the Group to provide the complete purchasing documents from the selected transactions.

(b) BT Risk Assurance reviewed the relevant evidential documents of the samples provided to BT Risk Assurances by the Group, including weighing lists, purchasing agreements, receipts, purchase vouchers and payment records etc., and did not find any accounting errors or anomalies.

(c) BT Risk Assurance analyzed the market price of alumina, the Group's alumina purchase price from Binzhou Gaoxin and the cost of the Group's self-supplied alumina for the period from 2013 to 2016. Based on the aforesaid analysis, BT Risk Assurance found that for the period from 2013 to 2016, the cost of the Group's self-supplied alumina was the lowest among the three, followed by the alumina purchase price of the Group with Binzhou Gaoxin, with the market price of alumina being the highest. However, in some individual months, it was found that the purchase price from Binzhou Gaoxin would be higher than the market price of alumina.

(d) Apart from the above analysis and the management's explanation with respect to the results, BT Risk Assurance carried out sample testing on the accounting records of the Group's externally-purchased alumina so as to verify if the Group's relevant accounting records have the relevant supporting documents. BT Risk Assurance did not find any anomalies in the aforesaid sampling process.

View of the Company and the Audit Committee

The relevant allegations set out in the 2017 Negative Report cover the period from 2007 to 2015. In this regard, the Company and the Audit Committee are of the view that the AUP Findings have sufficiently refuted the relevant allegations as set in the 2017 Negative Report of alumina subsidies received from Binzhou Gaoxin for the financial years from 2010 to 2015. With respect to the financial years from 2007 to 2009, the relevant arrangement for the procurement of alumina has been set out in detail in the Prospectus. The Company and the Audit Committee believe that the disclosure in the Prospectus is sufficient to show that the Company did not receive any subsidies from Weiqiao Chuangye for the period from 2007 to 2009. As such, the Company and the Audit Committee are of the view that it was not necessary for the Agreed-upon Procedures to cover the period from 2007 to 2009 in relation to the relevant allegations in the 2017 Negative Report.

3.3. Why is Binzhou Gaoxin Happy to Lose RMB6.62 billion?

The Company's Response

The 2017 Negative Report alleged that Binzhou Gaoxin is an undisclosed related party to the Company.

As disclosed earlier in pages 42 and 43 of this announcement, Binzhou Gaoxin is ultimately owned by an independent third party and the Company's contracts with Binzhou Gaoxin were based on arm's length negotiations and on normal commercial terms that are fair and reasonable. The purchase amount and average purchase price of alumina from Binzhou Gaoxin from 2010 to 2016 are as follows:

Year	**Purchase amount** *(10,000 ton)*	**Average purchase price** *(RMB/ton)* *(VAT inclusive)*
2010	211.08	1,896
2011	293.56	2,188
2012	183.72	2,131
2013	173.59	2,200
2014	239.76	2,200
2015	262.04	2,196
2016	235.25	2,083

The 2017 Negative Report alleged that Binzhou Gaoxin provided subsidies to the Group causing Binzhou Gaoxin to suffer a loss. However, the Directors are of the view that there are not only enterprises obtaining profit but also enterprises suffering loss in each industry. For example, in the aluminum industry, enterprises that suffer loss are not uncommon, and it would not be appropriate to suspect that these enterprises have provided subsidies to others. The Directors further confirm that the disclosure relating to Binzhou Gaoxin in the Prospectus was and is accurate and not misleading in any material aspect as of the date of the Prospectus and the date of this announcement.

In addition, the Directors are of the view that the financial position and operation of Binzhou Gaoxin will not have material effect on the Group. For the year ended 31 December 2016, the proportion of the electricity and alumina supplied by Binzhou Gaoxin were 15.43% and 19.34%, respectively, compared with the Group's total usage of electricity and alumina. The proportions of self-supplied electricity and alumina of the Group have been increasing and the Group essentially has no material reliance on any external suppliers of electricity and alumina. The 2017 Negative Report deliberately emphasized the Group's reliance on Binzhou Gaoxin without taking into account factual information, which sufficiently indicates the false and misleading nature of the 2017 Negative Report.

One of the strengths of the Group is its location in the aluminum industry cluster, which is a large-scale key industry cluster under the guidance of governments of Binzhou City and Zouping County. The government positively guides and supports the development and growth of the aluminum industry cluster by various policies and arrangements. As disclosed in the Prospectus, the People's Government of Zouping County approved the Decision on Establishment of Large-scale Aluminum Industry Cluster in Zouping Economic Development Zone (關於開發建設國內大型鋁產業集群基地的決定, the "**Decision**") on 8 January 2009, pursuant to which Zouping County decided to establish and develop a large-scale aluminum cluster in Zouping Economic Development Zone. The Decision involves plans to develop the local aluminum industry cluster to the industry cluster with the most extensive industrial chain and develop the Zouping Economic Development Zone into the core of the aluminum industry cluster by taking advantage of the existing large number of aluminum industry enterprises in Zouping County and supporting policies, and will strictly comply with the energy-saving and emission reduction requirements of the State. In order to achieve the aforesaid goal, Zouping Economic Development Zone will take steps to ensure steady and sufficient supply of alumina within the cluster, and will make full use of the existing energy advantage of Binzhou Gaoxin, and shall reorganize and consolidate the alumina production capacity within the cluster. On 7 May 2010, the People's Government of Zouping County has prepared the Development Plan of Aluminum Industry Cluster in Zouping County (鄒平縣鋁產業集群發展規劃, the "**Plan**"). The Plan identified certain companies and aluminum industry projects with relatively large production scale which are in compliance with laws, relevant policies and the objective of the Plan, and confirmed such companies or projects are entitled to enjoy the encouragement policy under the Plan. Enterprises in the aluminum industrial cluster of Binzhou City may share administrative and technical resources for the purpose of expanding and strengthening the entire aluminum industry cluster of Binzhou City and achieving synergic effect. Based on the aforesaid, the aluminum industry cluster of Binzhou City and Zouping County has experienced rapid development, and the development model of whole industry chain, namely, the model of "aluminum ore – alumina – aluminum – industrial aluminum profile (工業鋁型材) – aluminum deep processing products (鋁精深加工製品)" was established, and a number of large-scale backbone enterprises including the Group were developed. Pursuant to the relevant governmental documents of Binzhou City, in 2015, the output value of the aluminum industry in Binzhou City amounted to RMB200 billion. The products include alumina, electrolytic aluminum, wheels hub, piston, aluminum foil and other various types. Leveraging on the rich resources of the aluminum industry, Binzhou City has introduced a large number of big enterprises with strong strength , such as Beijing Automotive Group Co., Ltd.* (北京汽車集團有限公司), CITIC Dicastal Co., Ltd.* (中信戴卡股份有限公司), Hebei Lizhong Nonferrous Metal Group Co., Ltd.* (河北立中有色金屬集團有限公司), Taiwan Liuho Group* (台灣六和集團), Aviation Industry Corporation of China* (中國航空工業集團公司), etc, forming a good momentum for cluster development.

Both Binzhou Gaoxin and the Group are key enterprises in the development of the local aluminum industry cluster and actively promote the development and growth of the entire aluminum industry cluster under the guidance of the government. In particular, Binzhou Gaoxin is responsible for the supply of electricity and alumina as well as promoting the implementation of the development plan of the aluminum industry set by the local government, to ensure the stable supply of energy and raw materials for the aluminum industry cluster. The Group also provides aluminum products for aluminum profile enterprises and aluminum deep processing enterprises in the downstream industry. As disclosed in the Prospectus, the Company paid a minimum of RMB400 million purchase deposit to Binzhou Gaoxin to support its business development. In addition, as disclosed on page 168 of the Prospectus, Binzhou Gaoxin acquired the alumina business of Weiqiao Chuangye at the end of 2009. The 2017 Negative Report deliberately exaggerated certain speculations to support the related party relationship, and it cannot be ruled out that its intention is to mislead the Shareholders and potential investors of the Company.

Agreed-upon Procedures Performed by BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*3.2 External Alumina Subsidies Totaled RMB6.1 billion*".

AUP Findings

As part of the Agreed-upon Procedures, BT Risk Assurance has independently verified the shareholding of the relevant companies in the National Enterprise Credit Information Publicity System. Based on the above verification, BT Risk Assurance found that Binzhou Gaoxin was held by Zouping Economic and Technological Development Zone State-owned Assets Operation and Management Center (鄒平經濟技術開發區國有資產運營管理中心) (a state-owned entity rather than the affiliated company of the Group). In addition, there was no relationship in respect of shareholding structure or senior management (including directorships) between the principal operating companies of the Group and Binzhou Gaoxin and its shareholders.

For details of the AUP Findings on the alleged connection between Binzhou Gaoxin and the Group, please refer to the disclosure on pages 42 and 43 of this announcement.

Part 4 Hiding a Connected Party Acquisition

The Company's Response

Reference is made to the announcement of the Company dated 22 December 2014 in relation to the Binzhou Binbei Transaction pursuant to which the acquisition of the 100% equity interest in Binzhou Binbei by Binzhou Municipal Zhengtong New Aluminum Profiles Co., Ltd.* (濱州市政通新型鋁材有限公司) (an indirect wholly-owned subsidiary of the Company) as the purchaser, from Shandong Binbei, as the vendor. Shandong Binbei is a limited liability company incorporated in the PRC on 30 June 2011 and is principally engaged in trading of bauxite and production and sales of aluminum products.

The 2017 Negative Report alleged that the Binzhou Binbei Transaction was a connected transaction, that Xu Enyun had always been a managerial staff of the Company and Jing Wei is currently an employee of the Company. In alleging that Xu Enyun had always been a managerial staff of the Company, the 2017 Negative Report cited a news article dated 30 August 2012 that quoted Xu Enyun as a project leader of the Group. The Directors confirm that the Binzhou Binbei Transaction was not a connected transaction, details of which were disclosed in the announcement of the Company dated 22 December 2014 in accordance with the Listing Rules. The Directors also confirm that Xu Enyun and Jing Wei were not employees of the Group at the time of the Binzhou Binbei Transaction and as at the date of this announcement, Xu Enyun and Jing Wei are not current employees of the Group as alleged in the 2017 Negative Report. Xu Enyun and Jing Wei resigned from the Group in 2011 and 2013, respectively, and the content of the aforesaid news article is thus not accurate. According to the understanding of the Group, their main employment after leaving the Group involved assisting the investment departments of local government to attract foreign investments. The Group's primary production base is located in Zouping County Economic Development Zone, Binzhou City, Shandong Province, the PRC. As a large local enterprise group, the Group and its related enterprises have approximately 200,000 employees and have regular staff turnover every year. The Group also confirmed that Xu Enyun and Jing Wei had never held any directorship in the Company or its subsidiaries or held more than 10% of the shares of the Company or its subsidiaries. In accordance with the requirements of the Listing Rules, they are not connected persons of the Company. The Company has disclosed the information of the Binzhou Binbei Transaction in accordance with relevant requirements of Chapter 14 of the Listing Rules.

In addition, the Company also conducted a detailed and targeted refutation of the similar question in the 2016 Negative Report against the Group in the Previous Announcements. For details, please refer to the announcements of the Company dated 23 November 2016 and 20 December 2016.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) understood the background, reason and basis of the acquisition of 100% of equity interests in Binzhou Binbei through the interviews and inquiries with the management of the Group;

(b) enquired whether the management of the Group had conducted conflict of interest investigations and financial due diligence before such acquisition;

(c) obtained the shareholders' information, organizational structure and financial due diligence findings (if any) of Binzhou Binbei before such acquisition;

(d) examined whether Liu Gang, Xu Enyun and Jingwei were directors of Binzhou Binbei based on the organizational structure of Binzhou Binbei, and the information in the Companies Registry of Hong Kong and the State Administration for Industry and Commerce of the PRC;

(e) reviewed whether the accounting policies of the Company for the investment and the acquisition of subsidiaries were in compliance with International Accounting Standard 24 – Disclosure of Connected Parties;

(f) reviewed the information obtained and considered the background of the relevant transaction in order to ascertain whether the relevant transaction is a related-party transaction; and

(g) obtained relevant explanations from the management of the Group and assessed the reasonableness of the explanations.

AUP Findings

According to the Agreed-upon Procedures carried out by BT Risk Assurance:

(a) With respect to the acquisition of Binzhou Binbei by the Group, BT Risk Assurance understood from the Group that the Group decided to invest and acquire 100% of the equity interest of Binzhou Binbei (wholly-owned by Shandong Binbei) for the purpose of constructing the regional industrial structure and expanding its business scope. Prior to the acquisition, the Group hired an independent professional appraisal company to perform an analysis on the valuation of Binzhou Binbei and hired an independent accounting firm to audit the financial statements of Binzhou Binbei.

(b) BT Risk Assurance obtained the documents of relevant acquisition transactions, the abovementioned independent valuation report and independent audited financial statement, as well as the organization structure of the companies involved from the Group. It also obtained the corporate credit information reports of Binzhou Binbei published before and after the acquisition through the National Enterprise Credit Information Publicity System from April to May 2017, and obtained the information of relevant Hong Kong companies through the Companies Registry of Hong Kong. As confirmed by the Company and verified by BT Risk Assurance, Xu Enyun and Jing Wei had left the Group in 2011 and 2013, respectively. Therefore, Xu Enyun and Jing Wei were not employees of the Group at the time of acquisition as alleged in 2017 Negative Report. Furthermore, Xu Enyun and Jing Wei had never held any directorship in any members of the Group or held more than 10% of the shares of the Company or its subsidiaries. According to the Listing Rules, they do not constitute connected persons to the Group. BT Risk Assurance understood from the Group that although Liu Gang had been the legal representative of Shandong Binbei, he has no longer held the position since June 2014. The Group also obtained the written confirmation from Liu Gang that at the time of acquisition of Binzhou Binbei by the Group in December 2014, he was not a director or legal representative of Binzhou Binbei, Shandong Binbei or other related companies.

(c) Based on the organizational structure of Binzhou Binbei in the Companies Registry of Hong Kong and the State Administration for Industry and Commerce of the PRC, BT Risk Assurance compared the legal representatives, directors and shareholders of the relevant companies and found that there is no connection in respect of shareholding structure or senior management (including directorships) between Binzhou Binbei and other relevant companies (prior to the acquisition by the Group in December 2014) and the Group, and hence they are independent third parties to the Group.

Based on the Agreed-upon Procedures above and verification of documents such as labor contracts, corporate credit information reports and information from the annual returns of the relevant companies in Hong Kong, BT Risk Assurance did not identify any anomalies in the Group's explanations for the alleged transaction stated in 2017 Negative Report regarding why such transaction was not an undisclosed related-party transaction.

Part 5 Financials and Valuation

5.1. Non-existent Cash of RMB4.9 billion

The Company's Response

The Directors are of the view that the alleged "non-existent RMB4.9 billion in cash" in the 2017 Negative Report is unfounded speculation. The 2017 Negative Report alleged that the effective deposit interest rate of the Company was below the alleged "normal bank deposit rate", and therefore a large part of the cash and bank balance of the Company did not exist.

The 2017 Negative Report's assumption for the normal bank deposit rate is that the Company placed half of its money in demand deposits and half in three-month deposits. However, most of the cash and bank balances of the Company are demand deposits (i.e. deposited funds which can be withdrawn at any time from the bank without prior notice), of which the deposit interest rate is 0.35%. The Company also has partial foreign-currency deposits, of which the interest rates are 0.02% for HK dollars and 0.1% for United States dollars. For each of the five years ended 31 December 2015, the proportions of restricted bank deposits (i.e. fixed deposit and margin deposit for security) of the Company were 0.2%, 8.7%, 20.8%, 9.8% and 6.6%, respectively.

As the Company's production scale is relatively large and its cash flows are relatively frequent, there are large amount of cash income and expenditure and frequent repayments of short-term debts. The majority of the Company's cash are demand deposits, rather than other regular deposits, or other financial management method, in order to ensure better cash liquidity.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) requested internal financial accounts and details of borrowings, including interest-bearing loans and financial instruments (such as corporate bonds and bonds), their respective interest rates, financial costs and bank statements;

(b) reconciled internal financial accounts, consolidated financial statements and annual reports;

(c) obtained the relevant accounting ledgers for interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financial costs;

(d) recalculated the debt-to-equity ratio for the period from 2010 to 2016;

(e) conducted trend analysis of debt-equity ratio for the period from 2010 to 2016;

(f) understood the procedure of obtaining loans from financial institutions and institutions issuing financial instruments, through interviews with the relevant responsible personnel;

(g) reviewed the Company's policy in respect of loans and financial instruments, including their usage and purpose, financing costs and risk management, to ensure that the accounting treatment and disclosures were in compliance with the International Accounting Standard 23 – Borrowing Costs;

(h) in respect of interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financing cost, examined selected samples for 2013 to 2016 and verified all supporting documents relating to obtaining loan funds and issued financial instruments, subsequent interest rate and repayment of principal. Supporting documents included loan/financial instrument agreements, repayment conditions, bank statements, accounting vouchers and bank advices, and reported on whether the results of the sample testing contained these supporting documents;

(i) Understood from the relevant responsible staff whether there were loans or guarantees provided to companies outside the Group which were not recorded;

(j) Understood from the relevant responsible staff the reasons for the year-on-year increase of debt-to-equity ratio;

(k) analyzed the ratios for the Group's bank balance to cash, current assets, short-term debt and interest expense, and the ratio of short-term loans to long-term loans for the period from 2010 to 2016;

(l) reconciled internal financial account, bank statements and bank reconciliation statements to ensure no irregularly in the internal financial account and the balance on the bank statements;

(m) reconciled internal financial accounts, consolidated statements and annual reports to ensure the consistency between bank balances and figures disclosed in annual reports;

(n) randomly selected samples records of interest income during 2013 to 2016 and checked bank statements to verify the accuracy of the interest income;

(o) enquired the relevant finance staff about the nature of the interest income;

(p) searched bank deposit interest rates on the website of the People's Bank of China and compared it with the interest rates on the Group's bank statements; and

(q) evaluated the reasonableness of the explanations from the Group's management in relation to the AUP Findings.

AUP Findings

As part of the Agreed-upon Procedures, BT Risk Assurance conducted sample testings on the Group's interest income during the period from 2013 to 2016, and did not identify any anomalies. For the period from 2010 to 2012, verified the relevant internal financial records against the Group's consolidated accounts and annual reports to ensure that the figures are consistent with the disclosures made. It also enquired with the Group's finance staff about the nature of the interest income, and verified the accuracy of such interest income against the Group's bank statements and the publicly available reference deposit interest rates on the website of the People's Bank of China. In addition, BT Risk Assurance obtained copies of the Group's internal financial accounts, bank statements of all of the Group's PRC bank accounts, and reconciled the respective bank balances as at 31 December 2015. Based on the Agreed-upon Procedures carried out, BT Risk Assurance did not identify any shortfalls in the relevant bank balances of the Group.

In addition, BT Risk Assurance found that it is inappropriate for the 2017 Negative Report to project the bank balances based on the amount of interest income alone as there could be significant fluctuations of bank balances and different interest rates during the year which may prevent a fair and reasonable projection. Therefore, BT Risk Assurance believes that there is insufficient basis for any comparison of and conclusions drawn from the Group's interest income in the 2017 Negative Report, on the one hand, and the figures in the 2017 Negative Report derived from the simple average of the opening and closing bank balances stated in the Group's interim and annual reports, on the other hand.

View of the Company and the Audit Committee

The Company and the Audit Committee are of the view that the allegation is incorrect due to the method of calculation and assumptions made in the 2017 Negative Report, which was refuted in detail by the Company above and by the AUP Findings. Based on the AUP Findings, including the verifications carried out by BT Risk Assurance as to the Group's bank statements and bank balances, the Company and the Audit Committee are of the view that the Group's bank and cash level are true. As such, the Company and the Audit Committee are of the view that, the relevant allegations set out in the 2017 Negative Report have been sufficiently addressed.

5.2. Real Profitability Probably Less than Half of Claim

The Company's Response

The 2017 Negative Report alleged that the so-called "real profitability" of the Company is probably less than that reported by the Company. The Directors believe that based on the above refutation/clarification, the assumptions used in the 2017 Negative Report to calculate profitability of the Company are incorrect and groundless and therefore the conclusion in the 2017 Negative Report is untrue.

Agreed-Upon Procedures Performed By BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*1.2 Absurdly High Margins*".

AUP Findings

BT Risk Assurance had carried out Agreed-upon Procedures with respect to the Group's profitability ratio for the period from 2010 to 2015 and obtained management's explanation with respect to the results. Further, BT Risk Assurance carried out sample testing over the Group's accounting records for its self-supplied electricity and externally-purchased electricity in response to the 2017 Negative Report's allegation that the Group's production cost is too low, so as to verify that the Group's relevant accounting records have the relevant supporting documents. BT Risk Assurance did not find any anomalies in the aforesaid sampling process.

Please also refer to the view of the Company and the Audit Committee on the relevant allegations set out in the 2017 Negative Report as set out in "*1.2 Absurdly High Margins*".

5.3. Current Subsidies/Under-reporting Unsustainable

The Company's Response

The 2017 Negative Report alleged that the so-called "under-reporting cost and subsidies" are unsustainable. However, the alleged "under-reporting cost and subsidies" are based on wrong assumptions as mentioned above and therefore have no merit.

5.4. Valuation

The Company's Response

The re-evaluation of the Group's equity value in the 2017 Negative Report is based on wrong assumptions and the Directors are of the view that such re-evaluation is incorrect. The Directors do not rule out the possibility that the authors of the 2017 Negative Report intended to frustrate the market and conduct malicious competition.

Agreed-upon Procedures Performed by BT Risk Assurance

Please refer to the Agreed-upon Procedures set out in "*1.2 Absurdly High Margins*".

AUP Findings

Given that the data of various cost components adopted in the valuation model in the 2017 Negative Report contains certain assumption and speculation, and the data of the various cost components are not based on the complete internal data provided by the Group, BT Risk Assurance will not comment on the stock valuation of the Company in the 2017 Negative Report.

Please also refer to the view of the Company and the Audit Committee on the relevant allegations set out in the 2017 Negative Report as set out in "*1.2 Absurdly High Margins*".

Views of the Audit Committee in Respect of the 2017 Negative Report and the Agreed-upon Procedures

The Audit Committee has reviewed the AUP Findings, with emphasis on the methodologies and the scope of the Agreed-upon Procedures. Having considered the professional experience of BT Risk Assurance, its work methodologies and the scope of the review for the Agreed-upon Procedures, the Audit Committee is of view that BT Risk Assurance has carried out appropriate and sufficient verification of the allegations raised in the 2017 Negative Report, and has resolved the allegations in the 2017 Negative Report with appropriate conclusions based on such verification work done.

III. AUP FINDINGS OF THE 2016 NEGATIVE REPORT

The 2016 Negative Report contained speculations and groundless allegations against the Group. The Company is the view that the allegations in the 2016 Negative Report against the Group are untrue and groundless and the Company has made dedicated and specific rebuttals against such allegations. For further details, please refer to the announcements of the Company dated 23 November 2016 and 20 December 2016.

With respect to each allegation against the Group in the 2016 Negative Report, BT Risk Assurance also carried out independent verification in accordance with the Agreed-upon Procedures and did not find any anomalies.

The first allegation in the 2016 Negative Report: Even if the Group were profitable, the Group would have been unable to generate free cash flow and has accumulated a large amount of debt

Response of the Company

For the refutation and/or clarification made by the Company in response to the above allegation, please refer to the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in the 2016 Negative Report.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) obtained internal financial statements and schedule of loans with their interest rates from the Company's finance department, including interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financial expenses, and bank statements;

(b) reconciled the internal financial statements, the consolidated financial statements and the annual reports;

(c) obtained ledgers for interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financial expenses;

(d) recalculated the debt-to-equity ratio;

(e) performed trend analysis with respect to the debt-to-equity ratio;

(f) understood the process of obtaining a loan from the financial institution and the institutions issuing financial instruments, through interviews with relevant the Group's responsible personnel;

(g) reviewed the Company's policies on loans and financial instruments, including usage and purposes, financial expenses and risk management to ensure that accounting treatment and disclosure were in compliance with International Accounting Standard 23 – Borrowing Costs;

(h) for interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financial expenses, reviewed all samples during each of the financial years from 2013 to 2015 (the "**Relevant Period**"), performed sample testing on their supporting documents; obtained loan funds and issued financial instruments, and principal repayment, and supporting documents including loan/financial instrument agreements, repayment details, bank statements, accounting vouchers and bank payment vouchers;

(i) reported on whether the results of sample testing are supported by documents including loan/financial instrument agreements, repayment details, bank statements, accounting vouchers and bank payment receipts;

(j) understood if there are any unrecorded debts or guarantees to companies external of the Group through interviews with the Group's relevant responsible personnel;

(k) understood the reasons for the year-on-year increase of the debt-to-equity ratio through interviews with the Group's relevant responsible personnel;

(l) analyzed the Group's bank balances and the proportions of cash, current assets, short-term borrowings and interest expenses, including the ratio of short-term borrowings to long-term borrowings;

(m) reconciled internal financial accounts, bank statements and bank reconciliations to ensure that there are no differences between internal financial statements and bank statement balances;

(n) reconciled the internal financial statements, consolidated statements and annual reports to ensure that the bank balances are consistent with the figures disclosed in the annual reports;

(o) randomly selected samples from the interest income account during the Relevant Period and checked the bank statements to ensure that the interest income is accurate;

(p) understood the nature of interest income from the Group's relevant finance staff;

(q) searched the bank deposit interest rates during the Relevant Period from the website of the People's Bank of China and compared the deposit interest rate with that on the bank statements; and

(r) assessed the reasonableness of the explanation of the management of the Group and the Agreed-upon Procedures.

AUP Findings

According to the Agreed-upon Procedures carried out by BT Risk Assurance:

(a) BT Risk Assurance reviewed the Group's policies on loans and financial instruments (including usage purposes, financial expenses and risk management) and confirmed that the accounting treatment and disclosure required by such policies were in compliance with International Accounting Standard 23 – Borrowing Costs.

(b) For interest-bearing loans, financial instruments (such as corporate bonds and bonds) and financial expenses, BT Risk Assurance reviewed the borrowing accounts of the Relevant Period and extracted samples (including the information on the drawing of loans, subsequent interest and principal repayment vouchers) in chronological order, and reviewed its supporting documents including loan agreements, repayment details, bank statements, accounting vouchers and bank payment vouchers. The results of sample testing did not reveal any incorrect records or display any anomalies.

(c) BT Risk Assurance also obtained confirmation from the Group's relevant finance staff that, other than the intra-group borrowings and guarantees listed in the borrowing accounts, all subsidiaries of the Group do not have unrecorded debts or guarantees to the Group's external companies.

(d) According to the analysis of BT Risk Assurance, in 2015, although the Group's debt-to-equity ratio was high at 149%, the ratio of short-term debts over current assets still remained at 79%, and the proportion of interest expenses to bank balances and cash remained at around 31%, which showed that the risk level with respect to the Group's liquidity would not affect the Group's sustainability.

(e) BT Risk Assurance reconciled the internal financial accounts, consolidated statements and annual reports to ensure the consistency between bank balances and figures disclosed in annual reports of the Company.

(f) BT Risk Assurance randomly selected samples from interest income accounts of the Relevant Period and checked bank statements and receiving vouchers. BT Risk Assurance understood from the Group that the nature of the relevant interest income is the interest on bank deposits, and confirmed that the interest income of the Group and the accounting records were accurate.

(g) In addition, BT Risk Assurance searched for the bank deposit interest rate of the Relevant Period on the website of People's Bank of China and compared it with the deposit interest rate on the bank statements of the Group. BT Risk Assurance confirmed that there are no significant differences between interest rate of the selected samples and the bank deposit interest rate of the Relevant Period obtained from the website of People's Bank of China.

(h) BT Risk Assurance obtained the internal financial accounts, and obtained bank statements of all the bank accounts from the PRC banks where the Group maintained bank accounts domestically, and reconciled all the internal financial accounts with the bank statements obtained based on the balances as at 31 December 2015. In this regard, except for the 4 bank accounts, BT Risk Assurance found that all bank statements can be matched with the corresponding internal financial accounts and bank reconciliation statements and no anomalies were found. For the abovementioned remaining 4 bank accounts, BT Risk Assurance further verified that the balances of these 4 bank accounts were nil as at 31 December 2015, 3 of which had no transactions before. The Group has taken appropriate measures in accordance with the recommendations of BT Risk Assurance to exercise tight control procedures on handling bank accounts.

The Group's restricted bank deposits, bank balances and total cash level demonstrated a rising trend between 2013 to 2015. At the same time, the Group's annual debt-to-equity ratio was also increasing. This is mainly due to the fact that the business of the Group was expanding, which required an increase in the investment on fixed assets such as generator units. This necessitated an increase in the borrowings, an expansion of financing channels, an increase in the mid-to-long term borrowings and a modification of the long-term/short-term debt structure. At the same time, the Group also increased its cash level to ensure the sufficiency of the Group's financial liquidity.

Based on the AUP Findings, BT Risk Assurance has verified that there were no anomalies with respect to the Group's fixed assets and construction-in-progress expenditures during the Relevant Period. The Group's debt-to-equity ratio was also maintained within a controllable level, which supported the Company's response to the relevant allegations as stated in the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in the 2016 Negative Report.

The second allegation in the 2016 Negative Report: The Group's largest supplier is likely an undisclosed related party.

Response of the Company

For the refutation and/or clarification made by the Company in response to the above allegation, please refer to the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in the 2016 Negative Report.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) obtained from the State Administration for Industry and Commerce and the National Enterprise Credit Information Publicity System the filing records of Binzhou Gaoxin and Binzhou Weiqiao during the Relevant Period, and checked the information recorded in the State Administration for Industry and Commerce, including e-mail addresses, contact persons and contact telephone numbers;

(b) reviewed the relationship between the Group and Binzhou Gaoxin in accordance with the information obtained from the State Administration for Industry and Commerce and the National Enterprise Credit Information Publicity System; and

(c) understood the background of the legal representative of Binzhou Gaoxin and its senior management by inquiring with the management of the Group and investigating the relevant public information.

AUP Findings

The Group's explanation with respect to the same address or email address is reasonable. As the ultimate shareholder of Binzhou Gaoxin is Zouping State-owned Assets Management Center (鄒平國有資產管理中心), which is a state-owned entity, Binzhou Gaoxin has no connection with the Group regardless of shareholding structure or information on principal personnel such as directors. As such, Binzhou Gaoxin is an independent third party of the Group.

For the AUP Findings relating to the alleged connection between Binzhou Gaoxin and the Group, please refer to the disclosure on pages 42 and 43 of this announcement.

The third allegation in the 2016 Negative Report: The Group has made two large and undisclosed related-party transactions with a total amount exceeding RMB 10 billion, which might have been used for the purpose of cleaning false financial interests.

Response of the Company

For the refutation and/or clarification made by the Company in response to the above allegation, please refer to the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in the 2016 Negative Report.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) understood the background of, reasons for and the basis behind the acquisition of Binzhou Binbei's 100% equity interests through the interview and inquiry on the Group management;

(b) inquired whether the Group management has conducted a conflict of interest investigation and a financial due diligence before the acquisition;

(c) obtained the shareholders' information, organizational structure and financial due diligence findings (if any) of Binzhou Binbei before the Group's acquisition;

(d) based on the organizational structure of Binzhou Binbei in the Companies Registry of Hong Kong and the State Administration for Industry and Commerce of the PRC, reviewed the relevant information of Binzhou Binbei and examined whether Liu Gang, Xu Enyun and Jingwei were shareholders and directors of Binzhou Binbei;

(e) reviewed whether the accounting policies of the Company on the investment and acquisition of subsidiaries are in compliance with International Accounting Standard 24 – Disclosure of Connected Parties;

(f) reviewed the information obtained and considered the background of the transaction in order to ascertain whether the transaction was a related-party transaction; and

(g) obtained the explanation of the Group management and assessed its reasonableness.

AUP Findings

According to the Agreed-upon Procedures carried out by BT Risk Assurance:

(a) With respect to the acquisition of Binzhou Binbei by the Group, BT Risk Assurance understood from the Group that the Group decided to invest and acquire 100% of the equity interest of Binzhou Binbei (wholly-owned by Shandong Binbei) for the purpose of constructing the regional industrial structure and expanding its business scope. Prior to the acquisition, the Group hired an independent professional appraisal company to perform an analysis on the valuation of Binzhou Binbei and hired an independent accounting firm to audit the financial statements of Binzhou Binbei.

(b) BT Risk Assurance obtained the documents of relevant acquisition transactions, the abovementioned independent valuation report and independent audited financial statement, as well as the organization structure of the companies involved from the Group. It also obtained the corporate credit information reports of Binzhou Binbei published before and after the acquisition through the National Enterprise Credit Information Publicity System from April to May 2017, and obtained the information of relevant Hong Kong companies through the Companies Registry of Hong Kong.

(c) Based on the organizational structure of Binzhou Binbei in the Companies Registry of Hong Kong and the State Administration for Industry and Commerce of the PRC, BT Risk Assurance compared the legal representatives, directors and shareholders of the relevant companies and confirmed that there is no connection in respect of shareholding structure or senior management (including directorships) between Binzhou Binbei and other relevant companies (prior to the acquisition by the Group in December 2014) and the Group, and hence they are independent third parties. In addition, BT Risk Assurance also investigated and refuted the similar allegations raised in the 2017 Negative Report. For the relevant AUP Findings by BT Risk Assurance, please refer to the relevant disclosures in the response to the 2017 Negative Report in this announcement.

(d) With respect to the acquisition of Beihai Xinhe by the Group, BT Risk Assurance obtained the transfer agreement officially signed on 24 June 2017. BT Risk Assurance obtained the corporate credit information report of CITIC Trust Co., Ltd.* (中信信託有限責任公司) through the National Enterprise Credit Information Publicity System from April to May 2017. According to the corporate credit information report, CITIC Trust Co., Ltd.* is a wholly-owned subsidiary of CITIC Corporation Limited (中國中信有限公司), and no evidence was found that CITIC Corporation Limited is a related party to the Company. Additionally, the Company had appointed an independent third party to evaluate Beihai Xinhe before the transaction, and BT Risk Assurance also obtained the relevant board resolutions and the acquisition agreement of such acquisition, in which no evidence was found that such acquisition was a related-party transaction. According to the labor contracts, evaluation report, acquisition agreement and corporate credit information report, BT Risk Assurance did not found evidence showing that the Group carried out an undisclosed related party acquisition.

The fourth allegation in the 2016 Negative Report: The Group faced significant environmental issues that were being investigated by the government of the PRC.

Response of the Company

For the refutation and/or clarification made by the Company in response to the above allegation, please refer to the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in 2016 Negative Report.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) understood the Working Plan of the Group, which was raised in the allegations of the 2016 Negative Report;

(b) understood the contents of the rectification required by the Shandong Provincial Government and the Zouping County Environmental Protection Bureau on the (a) above;

(c) obtained the certificate issued by the Environmental Protection Department of Shandong on 24 November 2016;

(d) assessed the actual impact of the Working Plan on the Group, such as fines or suspension;

(e) assessed the completion progress of the rectification of the Group as required by the Working Plan; and

(f) assessed whether the Group's non-disclosure to the investors was appropriate.

AUP Findings

BT Risk Assurance found that, according to the written confirmation issued by the Environmental Protection Department of Shandong on 24 November 2016, all the Group's projects involving the environmental rectification had already been rectified and had complied with the industrial policies and the environmental management requirements. The Group did not made any announcement since there was no penalty such as fines, suspension of production or suspension of construction resulting from the Working Plan, which had actual financial impact on the Group. BT Risk Assurance did not find the aforesaid to be unreasonable.

The 5th allegation in the 2016 Negative Report: The value of the Group is accused of having little equity value due to its large debts.

Response of the Company

For the refutation and/or clarification made by the Company in response to the above allegation, please refer to the clarification announcement of the Company dated 20 December 2016 in relation to the refutation and/or clarification in response to the allegations in the 2016 Negative Report.

Agreed-upon Procedures Performed by BT Risk Assurance

As part of the review based on the Agreed-upon Procedures, BT Risk Assurance has, among other things:

(a) obtained internal financial statements from the finance department of the Company and downloaded the annual reports of the Company for the years from 2013 to 2015 from HKEX News;

(b) calculated the ratio of net income to net profits (i.e. net profit margin) during the Relevant Period;

(c) performed trend analysis on the net interest rate over the Relevant Period;

(d) obtained explanations from the Group management on the profit margins being significantly higher than those of the Group's peers;

(e) further investigated the disclosure of information to verify the accuracy of the explanation of the management of the Group; and

(f) identified the factors alleged in the 2016 Negative Report that affected the gross profit margin, including calculation methods for (1) externally-purchased electricity; (2) self-supplied electricity; (3) externally-purchased alumina; and (4) self-supplied alumina.

AUP Findings

According to the Agreed-upon Procedures conducted by BT Risk Assurance:

(a) BT Risk Assurance has obtained the audited financial statements of eight operating entities of the Group from 2010 to 2016 and the annual reports of the Company from 2010 to 2015. BT Risk Assurance calculated the net profit margin of the Company for each of the financial years based on the figures in the annual reports of the Company for the Relevant Period. BT Risk Assurance found that the figures of the net profit margin calculated based on the annual reports of the Company are consistent with those set out in the announcement of the Company dated 20 December 2016.

(b) BT Risk Assurance conducted trend analysis on the net profit margins it calculated and found that the net profit margin of the Company had been decreasing since 2012. BT Risk Assurance has obtained a reasonable explanation from the Group, being that the combination of an increase in administrative expenses and financial expenses, a decrease in the market price of aluminum products and an increase in exchange loss.

(c) In respect of the allegation of the under-reported production cost of the Group in the 2016 Negative Report, BT Risk Assurance conducted sample testing on the accounts of the cost of self-supplied electricity and the cost of externally-purchased electricity of the Group, including coal procurement, direct labor cost, depreciation and the relevant evidential documents. BT Risk Assurance also verified the accounting records of the relevant production costs of the Group, which were supported by relevant evidential documents, and did not identify any anomalies in the course of sample testing.

(d) The 2016 Negative Report alleged that the main reason for the net profit margin of the Company being over-reported was that the production cost of the Group was under-reported. The production cost of the Company alleged to be under-reported in the 2016 Negative Report consists of four major components, including the costs of externally-purchased electricity, self-supplied electricity, externally-purchased alumina and self-supplied alumina. BT Risk Assurance conducted sample testing on the production cost of the Group and analyzed the net profit margin, and did not identify any anomaly.

During the Agreed-upon Procedures, BT Risk Assurance sample tested all major production costs of the Group. According to the result of sample testing, all production costs were properly supported by documents such as contracts and invoices. Besides, there are no cut-off problems for cost recording. Therefore, there is no finding noted relating to any under-reporting of production costs and hence the false profit, which is alleged by the 2016 Negative Report.

Since the results of the sample testing of the production costs did not match the allegations in the 2016 Negative Report, the test results showed that the allegations of the 2016 Negative Report in respect of the Group's under-reporting of production costs and false profit were not established. As such, the assessment of the 2016 Negative Report in respect of the Group's valuation of the shares was incorrect.

BT Risk Assurance also investigated and refuted the similar allegations raised in the 2017 Negative Report. For the relevant investigation findings by BT Risk Assurance, please refer to the relevant disclosures in the response to the 2017 Negative Report in this announcement.

Views of the Audit Committee in Respect of the 2016 Negative Report and its Agreed-upon Procedures

The Audit Committee has reviewed the AUP Findings relating to the 2016 Negative Report, with emphasis on the work methodologies and the scope of the Agreed-upon Procedures. Having considered the experience of BT Risk Assurance, its work methodologies and the scope of the Agreed-upon Procedures, the Audit Committee is of view that BT Risk Assurance has carried out appropriate and sufficient verification of the allegations raised in the 2016 Negative Report, and has resolved the allegations in the 2016 Negative Report with appropriate conclusions based on such verification work done.

IV. THE AGREED-UPON PROCEDURES RELATING TO THE AUDIT FINDINGS

In accordance with the Board's engagement, BT Risk Assurance also performed the relevant Agreed-upon Procedures with respect to the Audit Findings.

Although the Audit Findings have identified a number of issues, many of such issues are of similar nature. For ease of comprehension and to arrive at the relevant conclusions with respect to the Audit Findings, BT Risk Assurance has classified the Audit Findings into six main categories, and with the remaining issues classified into the seventh category (the "**Other Findings**") (certain issues identified in the Auditing Findings may fall into more than one categories).

Set forth below are the details of the respective categories of Audit Findings and the conclusions arrived at by BT Risk Assurance based on its work carried out with respect to the Agreed-upon Procedures, as well as the Company's further responses to the same.

1. Few financial and accounting records were not entirely consistent

Audit Findings

The relevant Audit Findings mainly relate to certain inconsistency in the particular forms, components, extracted summary and item orders between bank statements in the Group's financial information and bank statements reprinted at the relevant bank obtained by the Previous Auditor during his work.

AUP Findings

Based on the investigations carried out in connection with the Agreed-upon Procedures, BT Risk Assurance found that the relevant discrepancies highlighted in the Audit Findings are partly due to carelessness of the Group's finance staff.

BT Risk Assurance has carried out follow up verification with respect to all the corporate and bank transaction records underlying all the relevant transactions referred in the Auditor's Letters and did not find any irregularities with respect to the same.

Company's response

The reason that the form and components of partial bank statements are inconsistent is set out below. Two sets of bank statements are, respectively, statement of demand deposit (活期存款明細賬) (provided to the Company by the bank monthly for the purpose of reconciliation, and being the bank statement reviewed by the Previous Auditor) and statement of activities of corporate current deposit (對公活期存款交易明細報表) (printed at the bank's trading counter).

Two statements are both normal banking statements in different forms without any difference in contents. After confirming with the bank by the Company, both statements are used in the usual course of business.

Additionally, certain inconsistencies in the form, extracted summary and item orders between the Group's bank statements for internal bank reconciliation purposes and bank statements reprinted at the relevant bank obtained by the Previous Auditor were partly due to the carelessness of the Group's finance stuff in, among others, omitting or incorrectly entering certain accounting entries. In this regard, the Company will develop tailor-made training plans to enhance professional knowledge and skills of its finance staff. At the same time, the Company will require the Company's internal audit department to strengthen the internal audit and increase inspection works over the Group's finances, so as to prevent careless acts by the finance staff to the maximum extent possible. Save for the aforesaid, as no irregularities have been found by BT Risk Assurance under its Agreed-upon Procedures, the Directors consider that no other action by the Company is required.

The Audit Committee has reviewed the contents of the AUP Findings, with emphasis on the scope of the Agreed-upon Procedures and the work methodology. Based on the experience of BT Risk Assurance, the work methodology used and the scope of the review under the Agreed-upon Procedures, the Audit Committee is of view that BT Risk Assurance has carried out appropriate verification, and has resolved the issues identified in the Audit Findings with appropriate conclusions based on such verification work done.

2. **As the online banking receipt search system of the bank did not completely capture all banking transactional records, certain financial and accounting transactional records provided by the Group could not be verified by the Previous Auditor through searches carried out using such online banking receipt search system (the "Bank Online Searches")**

Audit Findings

The relevant Audit Findings mainly relate to the fact that the Previous Auditor could not find the corresponding records of certain transactions in the payment and receipt accounts when he conducted the Bank Online Searches provided by the relevant bank.

AUP Findings

Based on the AUP Findings, the failure by the Previous Auditor to verify such financial and accounting transactional records through the Bank Online Searches was due to the fact that the Bank Online Searches did not include a complete bank transactional records carried out over the counter. BT Risk Assurances also noted the official website of the relevant bank also posted disclaimers that the Bank Online Searches may not provide a complete records of underlying transaction(s) in this respect. As part of the Agreed-upon Procedures, BT Risk Assurance obtained the relevant transaction records from over the counter at the relevant bank with respect to the transactions highlighted in the Audit Findings and did not find any inconsistencies between the relevant transactions and the bank transactional records.

Company's response

After on-site enquiries at the relevant bank by the Company, further investigations now show that the relevant transactions are now consistent with the findings in the bank's system. The Company has received confirmations from the relevant banks and such transactions were true and complete with supportive evidence. According to the communication between the Company and the relevant bank, this is due to the fact that the contents on the relevant bank's website for public search do not contain complete records. It has been clearly stated in the disclaimer on the relevant bank's official website that they do not guarantee the accuracy and completeness of the information set forth in their website.

As no irregularities have been found by BT Risk Assurance in performing its Agreed-upon Procedures, the Directors consider that no further action by the Company is required.

The Audit Committee has reviewed the contents of the AUP Findings, with emphasis on the scope of the Agreed-upon Procedures and the work methodologies. Based on the experience of BT Risk Assurance, the work methodology used and the scope of the review under the Agreed-upon Procedures, the Audit Committee is of view that BT Risk Assurance has carried out appropriate verification, and has resolved the issues identified in the Audit Findings with appropriate conclusions based on such verification work done.

3. The omission by the Group to enter certain accounting entries with respect of part of the transactions

Audit Findings

The relevant Audit Findings mainly relate to the discovery by the Previous Auditor of certain inconsistencies in the bank statements and the results of Bank Online Searches of certain transaction records. For example, the Previous Auditor discovered that there are inconsistencies between the payers' information and/or transaction amounts on certain transactions that appeared on the book of chronological entries and those that appeared on the record of bank statements and electronic receipts.

AUP Findings

As part of the Agreed-upon Procedures, BT Risk Assurance reviewed all the relevant bills, invoices and receipts with respect to the transactions raised in the Auditor's Letters. Save for certain transactions as further described below, BT Risk Assurance confirmed that all transactions have been correctly entered eventually.

In the AUP Findings, BT Risk Assurance identified certain transactions carried out by the Group which the Group omitted to record in its accounts. For instance, the Company uses its subsidiaries' acceptance bills as a matter of preference for payment purposes. However, the Group did not record the relevant accounting entries for internal account payables/receivables and note receivables into the accounting records of the Group, which led to inconsistencies between certain accounting records of the Group and the record of bank statements or the results of Bank Online Searches.

Details of the categories of transactions for which such accounting entries were omitted are set out below:

	Nature of transactions	Aggregate amount (RMB)	Reasons for such omission	Impact on accounting records
1	Endorsements of bank acceptance bills from Group companies	719,044,681.06	The Company considered these transactions were transitional and eventually would be offset when the actual bills were settled. Therefore, the relevant entries in certain accounts receivables, inter-Group transfers, prepayments and accounts payables were omitted.	In the limited circumstances where there were such endorsed but not yet due bills at financial half-year end or at year end, cut-off error would occur at the year of 2013 to 2014. No impact on the statements of 2015 or afterwards.
2	Bank payment and receipt transactions that were netted off each other	36,960,000.00	These were related to transfers in the same bank account only and the bank payment and receipt transactions were both omitted such that only actual movements were recorded.	There was no impact on the Group's financial statements as all the relevant transfers were able to offset each other.
3	Offsets of payables, receivables and inter-companies balance between Group members or with suppliers	41,694,421.00	These were transactions which were overlooked by the relevant accounting personnel.	All major eliminating balances would have been identified during the consolidation of all Group companies' accounts at financial half-year end or at year end. Hence, the relevant omissions of such would have no material impact on the Group's financial statements.

With respect to the abovementioned accounting transactions, BT Risk Assurance has recommended to the Group that it should enter the relevant accounting records in accordance with actual transactions so as to comply with International Finance Reporting Standards.

Company's response

The Company agrees with the recommendation of BT Risk Assurance and has made appropriate adjustments to the relevant accounting transactions in accordance with the recommendations of BT Risk Assurance, and such adjustments have been reviewed by the Group's auditor. The Company has rectified all of the relevant issues highlighted by BT Risk Assurance, and has taken measures to ensure that such accounting transactions would be correctly entered in the future.

The Audit Committee agrees with the recommendations of BT Risk Assurance and shall supervise the Company's finance staff to follow such recommendations. The Audit Committee believes that the relevant issues identified in the Audit Findings have been appropriately resolved upon the adoption of the relevant measures. The Company will require the Company's internal audit department to carry out internal audit and inspection work in this respect.

4. **The samples tests carried out by the Previous Auditor and described in the Auditor's Letters did not reflect the whole records for the relevant transactions, or there are errors in the Audit Findings**

Audit Findings

As for the details of the Audit Findings under such category, please refer to the Audit Findings under "IV. The Agreed-upon Procedures Relating to the Audit Findings – 3. The omission by the Group to enter certain accounting entries with respect of part of the transactions".

AUP Findings

BT Risk Assurance found that the samples tested and cited in the Audit Findings only cover part of the entire records for the relevant transactions, and as such did not obtain all of the information relating to such transactions. Further, the Audit Findings mistakenly identified a particular transaction for another transaction of the same amount and on the same date. In this regard, BT Risk Assurance has verified the transactions raised in the Audit Findings and did not find any irregularities.

5. **The provision by Weiqiao Chuangye of Yonyou NC system service to third parties**

Audit Findings

The Yonyou NC system is a corporate management software system which provides, among others, financial accounting management system to enterprises. In the course of the Previous Auditor's review of the Yonyou NC system used by the Group, the Previous Auditor had noted that (i) there were sets of accounts and user information in the Yonyou NC system which belonged to third parties, and (ii) the Group had five personnel who had previously supported Binzhou Gaoxin in issuing invoices and receipts.

AUP Findings

BT Risk Assurance has verified the shareholding records of the relevant companies and confirmed that such third parties and their shareholders are third parties not connected with the Group. Based on the investigations carried out as part of the Agreed-upon Procedures, BT Risk Assurance found that the owner of the Yonyou NC system in question is actually Weiqiao Chuangye, which had set up separate accounting modules in the Yonyou NC system for use by certain third parties, including the Group. During the relevant period, as relevant assets were acquired by Binzhou Gaoxin from Weiqiao Chuangye, for business continuity, at the request of Binzhou Gaoxin, Weiqiao Chuangye had set up an accounting module for Binzhou Gaoxin and its subsidiaries to support the business operations of Binzhou Gaoxin and its subsidiaries. The aforesaid accounting modules used by the Group and Binzhou Gaoxin were separate from, and independent of, each other and that of Weiqiao Chuangye. As such, each of Weiqiao Chuangye, the Group and Binzhou Gaoxin had no access to the others' accounting module at all times.

With respect to the sets of user accounts which were identified by the Previous Auditor in the Yonyou NC system to belong to the personnel of Binzhou Gaoxin and its subsidiaries, BT Risk Assurance obtained explanation from the Group that certain user information in Yonyou NC system was inadvertently not updated in connection with the secondment of the Group's employees to Binzhou Gaoxin and its subsidiaries to provide accounting support on a temporary basis. This led the Previous Auditor to identify the relevant discrepancies in the Auditor's Letters. Further, with respect to the five personnel of the Group who had previously supported Binzhou Gaoxin in issuing invoices and receipts, BT Risk Assurance also obtained the explanation from the Company that the five employees were seconded on a temporary basis to provide accounting support, but this had led the Previous Auditor to identify the aforesaid five employees of the Group also as the persons responsible for the issuance of invoices and receipts for Binzhou Gaoxin. Thus, BT Risk Assurance found that the main cause of such situation is the practice by Weiqiao Chuangye of providing the use of the Yonyu NC system to third parties and the Group's secondment of its personnel to third parties for temporary uses.

Company's response

The Group previously used the accounting module set up by Weiqiao Chuangye as, among others, the provision of Yonyou NC system service to the Group was offered without the charging of any fees, which helped to save the Group's operating costs and was thus more favourable to the Group. Therefore, such transaction was conducted on normal commercial terms or better, which constituted de minimis continuing connected transaction under Rule 14A.76 of the Listing Rules.

As set out in the AUP Findings above, the reason that particular employees of the Group had Binzhou Gaoxin or its subsidiaries shown as their employers in the Yonyou NC system was due to the inadvertent failure to update the relevant records. Such records had since been rectified. During the respective period of their secondments, the relevant Group's employees had no access to the accounts of the Group.

As one of the measures to improve on its internal control, the Group no longer seeks for the provision of the relevant Yonyou NC system from Weiqiao Chuangye, and ceased to provide personnel support to third parties (such as Binzhou Gaoxin and its subsidiaries) for temporary accounting assistance. As at the date of this announcement, the Group has purchased an independent account system and has started recording its transactions under the new system.

The Audit Committee is of the view that the measures adopted by the Company in resolving the above issued identified by BT Risk Assurance are appropriate, and will help to prevent future occurrences of similar situations. The Audit Committee shall follow up on relevant internal control measures to further improve and optimize the Company's internal control level.

6. **The presence of certain limited irregularities in the weighing system for raw materials and related accounting records and procedures of the Group**

Audit Findings

The relevant Audit Findings mainly relate to the presence of certain limited irregularities in the weighing system for raw materials and the related accounting records and procedures of the Group discovered in the verification by the Previous Auditor. For example, the Audit Findings highlighted that there appeared to be a few irregularities in the unusually short time interval between the weighing of the trucks carrying raw materials as carried out by the Group. Furthermore, the Audit Findings highlighted that there were certain cases that the signatures on the weighing records of raw materials were not made by the designated signatories, inconsistency in the numbers shown on weighing chops and the records printed by certain weighing machines, and the weighing system chops were not used in strict accordance with the Group's requirements.

AUP Findings

Based on the investigations carried out, BT Risk Assurance found that the unusually short time interval in the weighing of the trucks were due to anomalies in the weighing system. In addition, the other irregularities identified by the Audit Findings were limited instances where the Group's staff did not strictly follow the operating policies of the weighing system. For instance, certain records were signed by persons other than the designated signatories at times when the designated signatories were not present at the scene, weighing chops for other weighing machines were used for certain weighing machines that do not have weighing chops, or the weighing chops were not used in accordance with the Group's requirements.

With respect to the relevant problematic weighing records identified by the Previous auditor, BT Risk Assurance has verified the relevant supporting documents and did not notice any irregularities.

Company's response

The Company would like to clarify that these inconsistencies are extremely isolated instances, for example there were only four records with irregularities among over 10,000 original records. With respect to the isolated instances of irregularities identified, the Company has modified the relevant procedures and system and will provide internal training for the Group's employees responsible for the weighing system. The Group will implement the modified procedures and systems to improve their handling of the required procedures. Save for the aforesaid, no further measures are required given that no irregularities were identified by BT Risk Assurance.

The Audit Committee is of the view that the relevant measures taken by the Company are appropriate, and has appropriately resolved the relevant issues raised in the Audit Findings.

7. Other Findings

Audit Findings

Other relevant Audit Findings mainly relate to Audit Findings which are not classified in the above categories. For example, relevant banks were unable to complete the on-site printing of all of the bank statements required by the Previous Auditor on the same day when the Previous Auditor carried out the relevant verification. Furthermore, the Audit Findings also highlighted that during the relevant verification, certain bank staff did not provide banking activities chop on the bank statements on the spot upon the Previous Auditor's request due to the requirement of internal approval procedure of chop.

AUP Findings

The Other Findings mainly relate to matters such as arrangements with respect to printing of bank transaction statements, the opening, without the Group's authorization, of isolated bank accounts by finance staff of the Company to accommodate bank's business development targets etc.

BT Risk Assurance went to the relevant banks and obtained all the bank supporting documents for the relevant transactions cited in the Audit Findings. BT Risk Assurance performed verification with respect to the Group's bank accounts maintained with various banks, and found that four bank accounts opened were not included in the chart of accounts of the Group. It is noted that apart from the bank account relating to the point 3 mentioned above, the other three of the said bank accounts never had any transactions.

Company's response

Failure of fully comply with the Previous Auditor's on-site printing requirement for bank statements was because the printing of relevant bank statements at the bank required a long period of time, and the printing could not be finished within the business hours on that day. Certain bank staff also refused to seal the banking activities chop on the bank statements they provided due to the bank's internal approval procedure of chop.

As stated in the Company's response to point 3 above, the Company has rectified the omitted records in accordance with BT Risk Assurance's recommendations and has accepted the other recommendations. Further, the Group conducted internal investigations after receiving the Auditor's Letters, and has set up chart of accounts for the abovementioned three bank accounts as well as closed the other bank accounts which had no past transactions. At the same time, the Company has strengthened training to the Group's finance staff as well as the Group's internal inspection work. The Audit Committee agrees with the recommendations of BT Risk

Assurance and shall supervise the Company's finance staff to follow such recommendations. The Audit Committee believes that the relevant issues identified in the Audit Findings have been appropriately resolved upon the adoption of the aforesaid measures.

Conclusion

The Company has made improvements and enhancements with respect to the certain irregularities, which are in accordance with the advice of BT Risk Assurance. The Audit Committee also accepts BT Risk Assurance's recommendations and urges the Company to follow such recommendations. The Audit Committee believes that the Audit Findings have been appropriately addressed upon the adoption of BT Risk Assurance's recommendations and the implementation of relevant measures.

As a conclusion to the result of the Agreed-upon Procedures, BT Risk Assurance did not find any uncontrollable, structural or systematic irregularities, nor any irregular activities, intentional violations or fraudulent activities on the part of the Group. Save for the requested documents or details in relation to certain Audit Findings that were not provided by the Previous Auditor causing BT Risk Assurance to be unable to obtain sufficient materials to perform the relevant Agreed-upon Procedures, BT Risk Assurance has performed all the relevant verification procedures. It did not find any irregularities with respect to the relevant transaction records and other accounting records referred to in the Audit Findings that have been obtained by BT Risk Assurance. BT Risk Assurance has performed the Agreed-upon Procedures deemed appropriate by it, has clarified and sorted out all the relevant issues, and has understood the financial impact that may be caused by the relevant matters. Although there was oversight on the part of the Group in certain issues, BT Risk Assurance has, upon extended investigations, reached the conclusion that such oversight can be identified for rectification or are of isolated nature that can be followed up and rectified. As such, BT Risk Assurance is of the view that the Agreed-upon Procedures are sufficient to address the Audit Findings set out in the Auditor's Letters, and no expansion of the scope of the Agreed-upon Procedures is required.

V. LEGAL ACTION TAKEN BY THE COMPANY

As announced by the Company on 31 March 2017, the Company has resolved to seek legal actions against Emerson for defamation and instructed the special legal counsel to send a formal letter of demand to Emerson on 30 March 2017 to take the appropriate remedial/compensating measures. However, Emerson did not take any action to comply with the aforesaid letter of demand, and as such, the Company has formally filed a lawsuit against Emerson in court in Hong Kong.

The Company will provide further updates to the Shareholders and potential investors of the Company in respect of the aforesaid matters in due course.

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

Shandong, the PRC
25 October 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.

* *For identification purpose only*