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# **中国忠旺控股有限公司\***

## **China Zhongwang Holdings Limited**

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

**(Stock Code: 01333)**

### **CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING**

The Company refers to its earlier clarification announcement dated 31 July 2015, and sets out below further particulars of the Company's responses to the allegations contained in the DA Report.

#### **I. Introduction**

The Company believes that the allegations in the DA Report are groundless, and that the DA Report contains various misrepresentations, malicious and false allegations and obvious factual errors. Further, the Company notes that the DA Report contains speculation with expressions such as "estimate", "assume", "seem" and "likely", and groundless claims made by anonymous persons, persons unconnected with the Company, or so-called "former employees" of the Company. These allegations are factually incorrect and defy normal commercial logic.

The Company believes that the allegations are aimed at damaging the Company's reputation and are designed to manipulate the price of the Company's securities. The Company has consistently advocated business competition in a fair, disciplined and orderly manner.

The Company notes that the DA Report has been published anonymously, and that the publisher itself does not appear to have a clear track record for issuing other analysis reports. The Company further notes that the DA Report expressly states that its publisher makes no representation, express or implied, as to the accuracy, timeliness, or completeness of the information contained therein. The DA Report also states that its publisher is "short the securities" of the Company and "accordingly stand to profit" should the price of the Company's securities decline.

The Company reiterates that it reserves its right to take legal steps in relation to the matters arising from the DA Report, including commencing formal legal proceedings.

Unless otherwise indicated, all page references herein correspond to pages in the DA Report.

## II. False Allegations and Obvious Factual Errors in the DA Report

Before addressing the relevant allegations set out in the DA Report, the Company addresses below a number of patently false allegations and obvious factual errors in the DA Report. The Company believes that these basic errors throw considerable doubt on the veracity and credibility of the DA Report.

### 1. Information about the Tianjin Plant

The DA Report alleges that, its investigators verified that the high voltage power transmission lines had not been connected as at 2 March 2015, and therefore equipment installation and testing could not be performed at the Tianjin plant (see pages 40 and 41).

In fact, the construction of the transformer station of the Tianjin plant was completed at the end of October 2014, and the transformer station started supplying electricity on 17 December 2014 (see Illustration 1).



(Illustration 1: External appearance and internal control room of the transformer station of the Tianjin plant)

The Government of Wuqing District of Tianjin has issued a letter dated 1 August 2015 confirming that (i) the construction of the transformer station of the Tianjin plant commenced on 10 August 2013 and was completed by October 2014, and the transformer station started supplying electricity on 17 December 2014; and (ii) the construction and equipment installation of the first production line for aluminium plate has been completed, and the final stage equipment testing of the entire production line is currently being carried out.

### 2. Technology Centre and Research Centre

The DA Report alleges that the Company's capital expenditure is fictitious. In particular, the DA Report alleges that the Company's newly constructed "Technical Centre" is the same building as the former Research & Development Centre with a

changed name plate, on the basis that the appearance of the “Technical Centre” and the former Research & Development Centre is identical (see pages 41 and 42).

In fact, in order to enhance its technology and research and development capabilities and to increase its investment in research and development, the Group has built a new building as its Technology Centre next to the former Research & Development Centre. The Technology Centre bears the same external appearance as the former Research & Development Centre (see Illustration 2). DA Report’s allegation is completely inconsistent with the facts and has clearly been made solely based on comparison of pictures and speculation without conducting a simple site visit.



(Illustration 2: Research & Development Centre (left) and Technology Centre (right))

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer engaged by the Company, made a site visit to the Research & Development Centre and the Technology Centre of the Group and has issued a report dated 5 August 2015 confirming that the two are different buildings.

The Group has obtained the land use rights certificate and the building ownership certificate of each of the Research & Development Centre and the Technology Centre. Haiwen & Partners, an independent PRC legal advisor engaged by the Company, is of the opinion after due inspection that, for each of the Research & Development Centre and the Technology Centre, the Group has obtained the land use rights certificate and the building ownership certificate and therefore enjoys the relevant land use rights and building ownership.

### **3. Construction of the Yingkou Plant**

The DA Report alleges that (i) the land in Yingkou purchased by the Group is zoned for commercial use and it is unlikely that the land has been purchased to support a manufacturing operation, and (ii) its investigator visited the land and found that it was undeveloped as at March 2015 (see page 40).

In fact, the land in Yingkou is zoned as industrial land. The Group commenced construction of the Yingkou plant in 2012, which has been gradually put into operation since January 2015 (see Illustration 3).



(Illustration 3: External appearance and workshop of Yingkou plant)

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property appraiser engaged by the Company, made a site visit to the Yingkou plant and has issued an appraisal report dated 5 August 2015 confirming that (a) the Yingkou plant was under construction on 2 August 2015, being the date of the site visit; and (b) the Company has invested over RMB1.0 billion in the construction as at 30 June 2015.

The Group (i) has obtained three land use rights certificates in relation to the land in Yingkou, and (ii) has obtained the relevant approvals for the projects under construction thereon, or will be applying for the relevant approvals based on the construction progress. Haiwen & Partners, an independent PRC legal advisor engaged by the Company, is of the opinion after due inspection that, for the land in Yingkou, (a) the Group has obtained the relevant approvals for the projects under construction thereon, or will apply for the relevant approvals based on the construction process; and (b) the Group has obtained the relevant land use rights certificates and enjoys the relevant land use rights .

The Management Committee of Liaoning (Yingkou) Coastal Industrial Base has also issued a letter dated 2 August 2015 confirming that the construction of the Yingkou plant commenced in 2012, and the Yingkou plant has been gradually put into operation since January 2015.

#### **4. Sales Data of Deep Processed Products**

The DA Report claims that the Company disclosed on page 30 of its 2014 annual report that 63 tonnes of deep processed aluminium were “shipped to foreign customers” in 2014 (see page 17). However, the Company did not disclose such information in its 2014 annual report, but only disclosed on page 30 of its 2014 annual report that the revenue from overseas sales amounted to approximately RMB2,177,598,000. In fact, the Group’s overseas sales amounted to approximately 83,600 tonnes in 2014, of which approximately 67,800 tonnes (most of which were deep processed products) were exported to the United States. The DA Report therefore contains obvious factual errors.

## **5. Relationships among Entities referred to in the DA Report**

The DA Report alleges that the Company overstated its prepayment made to Supplier A by claiming that Parent A was the parent company of Supplier A and further relies on the financial data of Parent A as evidence (see page 37). In fact, Parent A is not the parent company of Supplier A. The DA Report therefore contains obvious factual errors.

## **6. Inconsistent Data in the DA Report**

The DA Report contains inconsistent data. For example, an earlier part of the DA Report claims that the total value of aluminium products exported to Malaysia (since January 2011) and Vietnam (from January 2011 to January 2015) by a trader is HK\$8.7 billion and HK\$17.04 billion, respectively (see pages 19 and 25). However, a later part of the DA Report refers to a different set of figures of HK\$8.07 billion and HK\$14.46 billion as the total export value to Malaysia and Vietnam since 2011, respectively (see page 29).

## **III. Responses to Other Allegations**

Having dealt with some basic errors in the DA Report, the Company addresses in greater detail the relevant allegations in the DA Report below.

### **1. Allegations of Fictitious Revenue Derived from Related-party Transactions**

- 1.1 The DA Report alleges that at least 62.5% of the Company's revenue as disclosed since 2011 is fraudulent (see pages 1, 3 and 6).

Since the Listing, the Company's consolidated financial statements have been audited by external independent auditors who are among the big four international accounting firms through strict and prudent auditing procedures. The Company's external independent auditors have issued unqualified opinions in respect of the Company's consolidated financial statements every year since the Listing.

According to the audited consolidated financial statements, during the period from 2011 to 2014, the revenues of the Group were all generated from sales to independent third parties, except for approximately an aggregate RMB22,125,000 (accounting for about 0.04% of the total revenues of the Group during the same period) which was generated from an associated company of the Group. As at 31 December 2012, 2013 and 2014, the balance of the trade and bills receivable of the Group amounted to approximately RMB780 million, RMB660 million and RMB820 million, respectively, and the recognised impairment losses for the trade and bills receivable of the Group amounted to approximately RMB nil, RMB330,000 and RMB nil, respectively, indicating a satisfactory recovery of payments from the customers of the Group. The DA Report's allegation that at least 62.5% revenue of the Company is fraudulent and derived from related-party transactions is plainly inconsistent with the facts.

The Company has strictly followed the requirements of the International Financial Reporting Standards in compiling its consolidated financial statements, which reflect the transactions between the Group and its suppliers and customers in a true and authentic manner. Moreover, in selecting its suppliers and customers, the Group generally reviews their basic information, such as qualifications, operation capacities and credit status, and assesses their comprehensive capabilities. The Company further confirms that, all the transactions between the Group and its suppliers or customers were entered into on an arm's length basis.

- 1.2 The DA Report alleges that Chairman Liu's Family has "cultivated a network of proxies and intermediaries out of China, and has used them to secretly set up entities and aluminium processing plants that span the globe" (see page 4).

In order to verify the relationships between (a) the purported proxies, intermediaries and the Purported Related Entities and (b) Chairman Liu's Family and the Company, the Company has made a number of inquiries with Chairman Liu. Chairman Liu (as regards the alleged relationships with Chairman Liu), and the Company (after reasonable enquiries as regards the alleged relationships with the Company) have confirmed that:

- (1) All the Purported Related Entities are independent of Chairman Liu and the Company, except for the following entities:
  - (i) Liaoning Hong Cheng Vinyl Profile Co., Ltd. (established in the PRC): Chairman Liu indirectly holds 40% equity interest in this company, which is mainly engaged in the production and sales of plastic profiles and products. During the period from 2011 to 2014, there were no business dealings between the Group and this company, apart from guarantees given by this company in favour of the Company in relation to approximately RMB2.1 billion of the Group's outstanding loans, which has been disclosed in the Company's 2014 annual report.
  - (ii) Liaoning Chengcheng Plastic Co., Ltd. (established in the PRC): Chairman Liu indirectly holds all the equity interest in this company, which is mainly engaged in the production and sales of various types of plastic woven bags, injection products, series membrane and thin films. During the period from 2011 to 2014, there were no business dealings between the Group and this company except for the Group's purchase of plastic packaging materials from this company for approximately RMB14,225,000 which has been disclosed in the Company's annual reports.
  - (iii) 1001 Doubleday, LLC (established in the United States): Ms. Wang Zhijie holds all the equity interest in this company. As confirmed by Chairman Liu, there has been no business dealings between the Group and this company since the Listing.
  - (iv) Cheng Cheng Plastics, Inc. (established in the United States): Mr. Liu Zhongsuo, the younger brother of Chairman Liu, used to hold all the equity interest in this company, which was mainly engaged in the

trading of plastic profiles. The Company has made reasonable enquiries and believes that this company ceased operation in 2012 and was finally dissolved on 22 August 2014. There had been no business dealings between the Group and this company since the Listing.

The Company had previously disclosed details of the entities numbered (i), (ii) and (iv) above in its prospectus for the Listing.

Save for those connected entities above, all the Purported Related Entities are independent of Chairman Liu and the Company. In addition, except for those connected entities and the business dealings with the Group above,

- (i) the Company confirms after reasonable enquiry that none of the Purported Related Entities have had any business dealings with the Group since 2011 except that:
  - (a) five of the Purported Related Entities are the Group's suppliers for aluminium ingots and aluminium billets. Business dealings with these five suppliers are entered into on normal commercial terms in the ordinary course of business of the Group; and
  - (b) two of the Purported Related Entities are the Group's customers for aluminium products. Business dealings with these two customers are entered into on normal commercial terms in the ordinary course of business of the Group.
- (ii) Chairman Liu confirms that, none of the Purported Related Entities have had any business dealings with him, his controlled entities (other than the Group) or his family members which are relevant to the principal business or products of the Group since 2011.

- (2) Apart from Mr. Liu Zuopeng, Ms. Wang Zhijie, Ms. Liu Chengcheng and Mr. Liu Zhongsuo, all the Purported Related Individuals are independent of Chairman Liu. Furthermore, Chairman Liu has confirmed that, save as disclosed above, the entities controlled by Mr. Liu Zuopeng, Ms. Wang Zhijie and Mr. Liu Zhongsuo have had no business dealings with the Group since the Listing.

Save for those connected individuals above, all the Purported Related Individuals are independent of Chairman Liu and the Company. In addition, except for those connected individuals above,

- (i) the Company confirms after due enquiry that, none of the Purported Related Individuals have had any business dealings with the Group since 2011; and
- (ii) Chairman Liu confirms that, none of the Purported Related Individuals have had any business dealings with him, his controlled entities (other than the Group) and his family members which are relevant to the principal business or products of the Group since 2011.

In order to support its allegations, the DA Report refers to certain purported evidence. In this regard, the Company would like to respond as follows:

- (1) The DA Report alleges that three companies are intermediaries controlled by Chairman Liu because such companies have the same addresses and contact numbers as those of “Liaoyang Zhongwang Plastic Profile” (which the Company believes refers to Liaoyang Zhongwang Vinyl Profile Co., Ltd., the predecessor of Liaoning Hong Cheng Vinyl Profile Co., Ltd.), or are situated in the same district as the Group, or use a particular contact number which belongs to the Group (see pages 8 and 32). The Company has made reasonable enquiries and believes that those three companies are independent third parties. The Company has also conducted searches in the National Enterprise Credit Information Publication System maintained by the PRC Administration of Industry and Commerce and made enquiries with Liaoning Hong Cheng Vinyl Profile Co., Ltd., and found that the registered addresses and contact numbers of these companies as claimed in the DA Report were not the correct registered address and contact number of Liaoyang Zhongwang Vinyl Profile Co., Ltd.. Further, the Group’s suppliers, customers or logistics companies often have their own representatives working at the Group’s sites to facilitate coordination and liaison in the ordinary course of the their operations. Such representatives usually use the temporary office facilities provided by the Group, such as desks and chairs, printer and copy machines and telephone and fax machines, for their relevant business activities conducted at the Group’s site.
- (2) The DA Report alleges that, Mr. Liu Zuopeng holds 99% equity interest in Aluminicaste (see pages 9 and 15). The Company has made enquiries with Mr. Liu Zuopeng and he has indicated that he used to hold 99% of the equity interest in this company from 28 October 2013 to 30 December 2013, but subsequently disposed of his entire stake to an independent third party. Aluminicaste is mainly engaged in recovery of scrap aluminium and production of recycled aluminium in South & Central America. As confirmed by Chairman Liu, Aluminicaste has no business dealings with the Group, nor does it compete against the Group. To the best knowledge of the Company, the Group’s products are not used in the course of Aluminicaste’s business.
- (3) The DA Report alleges that during the period from 25 November 2014 to 4 December 2014, Mr. Liu Zuopeng acted as the principal and the registered agent of PCA (see page 26). The Company has made enquiries with Mr. Liu Zuopeng and he has indicated that he acquired all the equity interest in PCA on 12 November 2014, but subsequently disposed of his entire stake to an independent third party for commercial reasons on 31 December 2014. PCA became the Group’s distributor in North America in 2003 and had a long term business relationship with the Group. However, it has had no business dealings with the Group since 12 November 2014.
- (4) The DA Report alleges that since 2015, Perfectus has been using Ms. Wang Zhijie’s property as its registered address (see page 26). The Company has made reasonable enquiries and believes that the property is owned by a company wholly owned by Ms. Wang Zhijie and on 1 January 2015, Perfectus

entered into an agreement with her company pursuant to which her company had agreed to provide the relevant office facilities to Perfectus. The Company understands that the said agreement was entered into on ordinary commercial terms.

- (5) The DA Report, by citing a report on the website of a local government, alleges that Chairman Liu had announced in 2013 that the Company would set up a 150,000-tonne production line in Vietnam and that such a production line was related to GVA (see page 18). The Company has been informed by Chairman Liu that this report is not true. Neither Chairman Liu nor the Company is aware of the source of the report. The Company also notices that some other reports published on the same local government website in question relating to the Group's "Changde Project" are also untrue. In fact, the Company had repeatedly reminded this local government website on several occasions to correct these untrue reports in relation to the Company.

- 1.3 The DA Report alleges that aluminium products manufactured by the Company were eventually delivered to overseas entities located in Mexico, California and likely Malaysia and Vietnam, which are all purportedly controlled by Chairman Liu's Family (see page 5).

Save as disclosed above, the so-called overseas entities controlled by Chairman Liu's Family referred to in the DA Report are all independent third parties.

The DA Report attempts to connect these alleged overseas entities with Chairman Liu and/or the Company by manipulating misleading information, including the following:

- (1) The DA Report claims that in April 2015, its investigator found that after certain containers had been shipped from the Group's plant, the containers bearing the same container number were found in GVA's possession, after a few weeks (see pages 21 to 25). In fact, the Group has no business dealings with GVA, nor is the Company aware that any of the Group's products are used by GVA in the course of GVA's business. The bills of lading referred to in the DA Report show that the exporter was a Singaporean entity, but the Group has no business dealings with this company.
- (2) The DA Report claims that in early 2015, its investigator found that Perfectus had a sizable extrusion stockpile with shipping labels which showed the stockpile originated from the Company (see pages 27 and 28). In fact, before PCA was acquired by Perfectus in 2014, PCA had been the Group's distributor in North America since 2003 and had a long term business relationship with the Group. Therefore, it is not surprising to find aluminium products produced by the Group in the inventory of Perfectus. Perfectus is mainly engaged in the procurement and distribution of processed aluminium and other metal products, and currently purchases aluminium products from the Group.
- (3) The DA Report claims that Chairman Liu's Family plans to establish a plant with an investment of HK\$467 million in Port Klang, Malaysia (see page 19).

Chairman Liu has confirmed to the Company that he has no such plan, and he is not aware of the source of such information.

- 1.4 The DA Report alleges that aluminium products manufactured by the Company were transferred to the entities controlled by Chairman Liu's Family through undisclosed related parties, under the guise of fair and arm's length transactions (see page 3).

As disclosed above, the three PRC trading companies and three PRC intermediaries which the DA Report alleges were engaged in the transportation of aluminium products are all independent third parties.

The DA Report alleges that aluminium products manufactured by the Company were transferred to two Chinese intermediaries controlled by Chairman Liu through a state-owned enterprise. In fact, the state-owned enterprise and the two Chinese intermediaries referred to in the DA Report are all independent third parties.

## **2. Allegations that Guarantee(s) Provided for Bank Loans Advanced to So-Called Related Parties**

- 2.1 The DA Report alleges that the Company has provided guarantees for bank loans advanced to so-called related parties, in the amount of at least HK\$36.5 billion (see pages 1 and 3) (although another part of the DA Report (see pages 6 and 28) refers to the figure of HK\$17.25 billion).

Since the Listing and as disclosed in its annual reports, the Company has never provided any guarantees to any person or entity outside the Group. In addition, all the major operating entities of the Company are incorporated in the PRC, and according to the basic credit information reports provided by the credit reference system of the People's Bank of China in 2015 and as confirmed with the relevant banks, none of those operating entities of the Company have provided any external security as at the date of the respective reports. The so-called amount of related-party guarantee provided by the Company as alleged in the DA Report is unsubstantiated and even the figures in the DA Report itself are inconsistent. The Company is not aware of the source of such information.

- 2.2 The DA Report alleges that if the Company is required to repay the loans advanced to the so-called related parties, the Company will be insolvent (see page 6).

As mentioned above, the Company has never provided any guarantee for bank loans advanced to the so-called related parties as alleged in the DA Report. The Company therefore has no liability to repay any such purported bank loans.

According to the 2014 annual report of the Company, as at 31 December 2014, the asset-liability ratio of the Company is 54.8% with total assets of approximately RMB53.8 billion and debentures and loans of approximately RMB23.9 billion, including approximately RMB11.9 billion of debentures and loans under the item of current liabilities, and approximately RMB11.2 billion of bank balance and cash. The Company has been in good operating condition and has sufficient cash to pay current liabilities such as debentures and loans. The Company is not in an insolvency or bankruptcy situation.

As indicated above, the above two allegations made in the DA Report are a distortion of the facts and are made without objective judgement.

### **3. Allegations of Fraud in relation to Export VAT Rebates**

- 3.1 The DA Report alleges that the actual export value of the Company since 2009 is HK\$59 billion, rather than HK\$16.1 billion as disclosed by the Company (see page 29).

Since the Listing, the annual export value of the Group has been disclosed in its annual reports. From 2009 to 2014, the annual export amount of the Group was approximately RMB6.1 billion, RMB4.7 billion, RMB500 million, RMB1.1 billion, RMB1.7 billion and RMB2.2 billion, respectively, totalling approximately RMB16.3 billion (or HK\$20.7 billion based on the exchange rate of HK\$1.00 = RMB0.7889). The alleged export amount of HK\$59 billion referred to in the DA Report is without basis. In addition, the figure quoted by the DA Report as being of the Company's reported export value (HK\$16.1 billion) in the DA Report is not accurate. The Company has already disclosed such data in its annual reports, which are easily accessible.

When exporting aluminium products, the Group declares its export amount and obtains export VAT rebates according to relevant laws and regulations. The Company has not manipulated the export amount or been involved in any export VAT rebate fraud as alleged in the DA Report. The relevant tax bureau has issued letters dated 3 August 2015, confirming that the two subsidiaries of the Company which have been engaged in export business have complied with the applicable laws in relation to the declaration of VAT tax rebate, have not been engaged in any non-compliance with the relevant tax laws and regulations, and have never received any administrative penalties imposed by the relevant tax bureau.

- 3.2 The DA Report alleges that the price of aluminium products per tonne for export as declared to the PRC customs by the trading companies controlled by Chairman Liu's Family is approximately 67% higher than the declared value of the same products in Mexico, Vietnam, and the United States, and that Chairman Liu's Family has allegedly embezzled approximately HK\$6.5 billion of export VAT rebates (see page 29).

As stated above, the trading companies allegedly controlled by Chairman Liu's Family referred to in the DA Report are in fact independent third parties. The Company is not aware of (i) the circumstances and reasons for the differences in export price and import price of aluminium products of such trading companies, or (ii) the VAT rebates received by other entities referred to in DA Report.

According to the relevant PRC laws and regulations on VAT, the VAT rate for products exported is nil. Where the VAT rebate applies, VAT is not levied for the export; instead, the tax authorities shall refund the VAT already levied for the products to be exported when they are produced in the PRC so that they are free of VAT in the international market. The aim is to encourage the relevant PRC enterprises to export products at internationally competitive prices. Generally, when a foreign trade company in the PRC purchases products in the PRC and then exports

those products, VAT will be exempted. The export VAT rebate equals to the purchase value (excluding the VAT) specified on the specific VAT invoice obtained when purchasing such product multiplied by the tax rebate rate applicable to such product. Therefore, the amount of export VAT rebates is related to the purchase price and the applicable tax rebate rate but is not affected by the export price. The allegation in the DA Report that the foreign trade companies inflate the export price in order to obtain more export VAT rebates is mere speculation, and shows an ignorance of basic tax law.

#### 4. Allegations of Overstatement of Capital Expenditures by the Company

- 4.1 The DA Report alleges that the Company inflated its capital expenditures by (a) overstating the purchase value of equipment and machinery, (b) inflating prepayments, and (c) engaging in Ponzi land financing (see page 37).

From 2011 to 2014, the annual capital expenditures of the Company were approximately RMB7.2 billion, RMB7.6 billion, RMB6.0 billion, and RMB8.8 billion, respectively, totalling approximately RMB29.6 billion. The Company is not aware of the source of DA Report's allegation that the Company has overstated its capital expenditures. In particular:

- (1) The DA Report alleges that the real price of the extrusion machine purchased by the Group is about 37%-70% lower than the price disclosed by the Company (see page 37).

According to the relevant equipment purchase agreements and the Prospectus of the 2013 2nd Short-term Debenture issued by Liaoning Zhongwang Group Co. Ltd. dated 8 May 2013, the purchase price of the 125MN, 90MN, and 75MN extrusion machines purchased by the Group at the end of August 2012 are as follows:

Equipment	Quantity	Unit price of Supplier I (RMB)	Unit price of Supplier II (RMB)
125MN extrusion machine	3	235,510,000	-
90MN extrusion machine	4	95,100,000	-
75MN extrusion machine	3	-	82,540,000
75MN extrusion machine	4	-	83,550,000

The purchase prices above include costs related to equipment, cables, spare parts, technical data, training and technology service, transportation fee and installation fee. The core components of those extrusion machines were imported from countries such as Germany and Italy. According to the valuation report dated 28 January 2013 issued by an independent third party valuer, the value of each production line of 125MN, 90MN and 75MN extrusion machines are RMB269,443,062, RMB131,968,074, and

RMB112,022,624, respectively, appreciated by about 4.71% compared with the book values of such production lines.

Therefore, the allegation that the Group has overstated the purchase prices of its extrusion machines is unsubstantiated and indicates a lack of basic industry knowledge.

- (2) The DA Report alleges that the Company has overstated the amount of prepayments made to its suppliers by comparing the prepayments to Supplier A and Supplier B in 2011 according to relevant project contracts of the Company against the amount of advances received from customer disclosed in the 2013 annual reports of the parent companies of such suppliers (namely, Parent A and Parent B, both of which are listed in Hong Kong) (see page 39).

In fact, Parent A referred to in the DA Report is not the parent company of Supplier A, which is either a factual mistake or distortion of fact in the DA Report. In addition, the advances from customer disclosed by Parent A and Parent B in their respective 2013 annual reports are approximately HK\$21.607 million and RMB885.437 million, which are inconsistent with HK\$37 million and HK\$395 million referred to in the DA Report.

In addition, the consideration for the equipment is paid by the suppliers to the overseas manufacturers. It follows naturally that the balance of advances from customer as shown in the suppliers' financial statements would not be equal to the aggregate amount prepaid by the Company.

- (3) The DA Report alleges that the land purchased by the Group in Yingkou, Panjin, and Daqing has been pledged in order to obtain bank loans (see pages 37 and 38).

In fact, the Company has never pledged such land to guarantee any loans. According to the relevant PRC laws and regulations, any encumbrance on the land shall be annotated in the relevant land use rights certificates. However, there is no such annotation in the land use rights certificates for the Company's land in Yingkou, Panjin and Daqing as at the date of this announcement, indicating that the land has not been pledged for loans.

- 4.2 The DA Report alleges that about half of the Company's HK\$30 billion capital expenditures since 2011 have been "diverted"(see pages 6 and 39).

From 2011 to 2014, the capital expenditures of the Company totalled RMB29.6 billion, including RMB5.5 billion for land purchase and RMB24.1 billion for plant construction and machine equipment. About RMB19.6 billion was used in construction of the Company's Tianjin plant, including RMB1.8 billion for land purchase and RMB17.8 billion for plant construction and machine equipment.

The land use rights purchased by the Group were acquired through land transfer from the government, while the major machines and equipment were purchased from large state-owned enterprises and the infrastructure construction was undertaken by large

state-owned construction enterprises. There is no circumstances under which capital expenditures have been misappropriated or are likely to be misappropriated.

- 4.3 The DA Report alleges that the loans for the Tianjin plant secured by the Company may have been “diverted” by Chairman Liu’s Family (see pages 6, 7 and 37).

The construction of the Company’s Tianjin plant commenced in 2011. As at the end of 2014, approximately RMB19.6 billion had been invested in the Tianjin plant, most of which came from the Company’s working capital and the proceeds of the open offer completed on 28 January 2014 in which Zhongwang International Group Limited, a substantial shareholder of the Company wholly owned by Chairman Liu, underwrote 99.99% of the offer shares without charging the Company any underwriting fee due to the confidence in and the support of the Company’s future development. The investment has provided sufficient capital for the construction of the first production line of the Tianjin plant.

To ensure the construction of the Tianjin plant, the Company entered into a syndicated facility of up to RMB20 billion with a syndicate of banks on 24 July 2015, which is a special loan for fixed assets devoted to the construction of the Tianjin plant. The payments from this facility up to a certain amount will be made in entrusted payments, which will be wired to the counterparties’ accounts directly by the syndicate of banks. These funds could not therefore be misappropriated.

In addition to the syndicated facility above, there is only one US\$200 million loan for the Tianjin plant, which is also a loan for fixed assets used directly to pay for the purchase of equipment from a state-owned equipment supplier. As a result, there is no factual basis for the allegation in the DA Report that HK\$9.3 billion out of the HK\$58 billion for the Tianjin plant has been transferred to Chairman Liu’s Family (see pages 7 and 40).

- 4.4 The DA Report alleges that while the Company has disclosed that the Tianjin plant would commence operations in the second half of 2014, it had not yet commenced production as at July 2015 (see page 13).

According to the preliminary planning of the Tianjin plant, the expected date of operation of the first production line was at the end of 2014. However, as the largest project of single aluminium production base in the world in history, this project involves land purchase, infrastructure construction, negotiation, procurement and scheduling of equipment, construction of supporting facilities and a considerable amount of other work, among which certain work streams, such as land purchase, are not within the control of the Group and certain adjustments to the project progress have to be made. The Group has been promoting the Tianjin project actively and steadily, and monitoring its progress on a real-time basis. The Company has adjusted the expected operation date of the Tianjin plant to the end of 2015 in accordance with the progress of the project. Such adjustment was disclosed in the Company’s 2012 annual report which is easily accessible and understandable.

As at the date of this announcement, plant construction and equipment installation for the first production line have been completed, and the equipment testing of the entire production line at the Tianjin plant is being carried out. In the first half of 2015, the

Group carried out testing for the core equipment of the first production line, and will further optimize all system functions. Based on the current schedule, the Tianjin plant is expected to start trial production as scheduled and to commence mass production ahead of schedule.

#### **IV. Opinion of Independent Non-executive Directors and Audit Committee**

The independent non-executive Directors and the Audit Committee have reviewed the DA Report and the responses and relevant evidence prepared by the Company as disclosed in this announcement, and discussed the details with Chairman Liu and the management of the Company. On this basis, the independent non-executive Directors and the Audit Committee consider that the allegations in the DA Report are groundless, and that it contains various malicious misrepresentations, false accusations and obvious factual errors. They agree with the Company's responses to the allegations as set out in this announcement.

#### **V. Conclusion**

The Board confirms that since the Listing, all the consolidated financial statements of the Company (including information on related party transactions) have been audited by independent external auditors. These independent external auditors have issued unqualified audit opinions of the Group's consolidated financial statements every year since the Listing. The auditors of the Company have not revised nor withdrawn their audit opinions.

The Board reiterates that the allegations in the DA Report are groundless, and that the DA Report contains various misrepresentations, malicious and false allegations and obvious factual errors. The Company reserves its right to take legal steps in relation to the matters arising from the DA Report, including commencing formal legal proceedings.

The Company has consistently advocated business competition in a fair, disciplined and orderly manner, and believes that development with mutual benefit is the foundation for the steady growth of the industry.

Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Board confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

#### **VI. Resumption of Trading**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 31 July 2015 pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading of the Shares on the Stock Exchange with effect from 9:00 a.m. on 13 August 2015.

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

## VII. Definitions

“Aluminicaste”	Aluminicaste Group, a group of entities established in Mexico
“Audit Committee”	Audit Committee of the Company
“Board”	the board of Directors
“Chairman Liu”	Mr. Liu Zhongtian, chairman of the Company
“Chairman Liu’s Family”	Chairman Liu and his family members
“Company”	China Zhongwang Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability with the Shares listed on the Stock Exchange
“DA Report”	the report published by Dupré Analytics on 30 July 2015
“Director(s)”	director(s) of the Company
“family member”	has the meaning ascribed to it in Rule 14A.12(2)(a) of the Listing Rules
“Group”	the Company and its subsidiaries
“GVA”	Global Vietnam Aluminium as referred to in the DA Report
“independent”	the relationship with a person or an entity which is not a connected person as defined under the Listing Rules
“independent third party(ies)”	person(s) or entity(ies) which is/are not a connected person(s) (as defined in the Listing Rules) of the Company
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on 8 May 2009
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PCA”	Pengcheng Aluminium Enterprise Inc. USA, an entity established in the United States which was acquired by Perfectus Aluminum Inc. in December 2014
“Perfectus”	Perfectus Aluminum Inc. as referred to in the DA Report
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“Purported Related Entities”	the purported related entities referred to in the DA Report
“Purported Related Individuals”	the purported related individuals referred to in the DA Report
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“VAT”

value-added tax

By order of the Board  
**China Zhongwang Holdings Limited**  
**Liu Zhongtian**  
*Chairman*

Hong Kong, 12 August 2015

As at the date of this announcement, the Board consists of:

***Executive directors***

Mr. Liu Zhongtian, Mr. Lu Changqing, Mr. Chen Yan, Ms. Zhong Hong and Mr. Gou Xihui

***Independent non-executive directors***

Mr. Wong Chun Wa, Mr. Wen Xianjun, Mr. Shi Ketong and Mr. Lo Wa Kei, Roy.

\* *For identification purpose only*