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CHINA HUARONG ENERGY COMPANY LIMITED

中國華榮能源股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01101)

FURTHER INFORMATION IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

Reference is made to the announcement of China Huarong Energy Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 March 2017 in relation to the consolidated financial results of the Group for the year ended 31 December 2016 (the “**Results Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Results Announcement.

The Company would like to provide further information in relation to the Results Announcement as follows:

1. Approval by the Audit Committee

Reference is made to the paragraph headed “Audit Committee” on page 8 of the Results Announcement. The consolidated financial statements of the Group for the year ended 31 December 2016 (the “**Financial Statements**”), which includes the disclaimer of opinion, have been carefully reviewed and approved by the Audit Committee of the Company (the “**Audit Committee**”). The Audit Committee is of the opinion that the Financial Statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee also recommended the Board’s approval of the Financial Statements, which includes the disclaimer of opinion. Such recommendation was made unanimously by all members of the Audit Committee. The Audit Committee had discussed on various aspects on the Financial Statements before making its recommendation to the Board for approval of the Financial Statements. The proposed actions to be taken by the Company to address the concern of the disclaimer of opinion have been reviewed and agreed by all the members of the Audit Committee. All members of the Audit Committee understood the disclaimer of opinion, including its basis, and recognized that the removal of which is subject to fulfilment of a number of conditions including the successful completion of the Group’s restructuring plan on (i) the Disposal of Liabilities; (ii) the Potential Transaction; and (iii) the restoration and refinancing of operation of the Group.

2. Going concern and mitigation measures

Reference is made to (i) the paragraph headed “Basis for Disclaimer of Opinion” on pages 9 to 11 of the Results Announcement, and (ii) Note 2.1(a) to the Financial Statements under the section headed “Going concern basis” on pages 17 to 25 of the Results Announcement in respect of the mitigation measures to improve the Group’s financial position, to refinance its operations and to restructure its debts.

The completion of the Disposal of Liabilities is conditional upon certain criteria, amongst others, the finalization and agreement of the detailed terms and conditions on the subscription arrangements with creditors. In this regard, the Group has been actively negotiating on these terms and conditions on the subscription arrangements as well as the implementation plan for the Disposal of Liabilities with the creditors. The Group is still in discussion with potential buyers in regard to the Potential Transaction, and no agreements or written understanding have been signed in this regard as at the date of this announcement. The Group expects the Potential Transaction will proceed after completion of the Disposal of Liabilities. With the support of the bank creditors of the Company who aim to safeguard the equity interests and net asset value of the Group, the Company expects that the gearing and the net deficit position of the Group will improve significantly subsequent to the Disposal of Liabilities, which may allow the Company to facilitate negotiation and implementation of the terms of the Potential Transaction in a more advantageous position. In view of obtaining new source of financing for oil exploration, the Company plans to complete the Disposal of Liabilities as soon as possible. The Company will strive to obtain and has been actively seeking additional sources of financing from banks, shareholders of the Company and/or non-controlling interests of the oil and gas exploration subsidiaries.

3. Property, Plant and Equipment

Reference is made to Note 10 to the Financial Statements headed “Property, Plant and Equipment” on pages 31 to 33 of the Results Announcement. In determining the recoverable amounts of the non-current assets (including land use rights and property, plant and equipment under Shipbuilding, Offshore Engineering and Marine Engine Building segments as at 31 December 2016), which were based on the fair value less costs to sell of these assets, the Directors made reference to the estimated consideration of these assets under the Potential Transaction. The estimated consideration of these assets under the Potential Transaction is dependent on the scope of assets and liabilities to be included in the Potential Transaction. The Directors formed the view that the estimated consideration of the Potential Transaction will be no less than the aggregate carrying value of the net assets to be disposed of (the “**Understanding**”) primarily based on the understanding among the Group, the potential buyer(s), the relevant PRC government authorities and the bank creditors of the Company. The parties have also been discussing the terms of the Potential Transaction on the basis of the Understanding. In particular, based on past negotiations, the bank creditors, being the major creditors of the Company and the parties to the Disposal of Liabilities, require the Company to proceed with the Potential Transaction on the basis of the Understanding, which aims to safeguard the equity interests and net asset value of the Group and the recoverability of the amounts due from the Group.

By Order of the Board
China Huarong Energy Company Limited
LEE Man Yee
Company Secretary

Hong Kong, 17 July 2017

As at the date of this announcement, the directors of the Company are:

Executive directors:

Mr. CHEN Qiang (Chairman), Mr. HONG Liang, Mr. WANG Tao, Ms. ZHU Wen Hua and Mr. ZHANG Ming;

Independent non-executive directors:

Mr. WANG Jin Lian, Ms. ZHOU Zhan and Mr. LAM Cheung Mau.