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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 UPDATE ON THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcements of China Huarong Energy Company Limited (the “**Company**”) dated 30 March 2020 (the “**2019 Preliminary Results Announcement**”) and dated 24 April 2020 in relation to the unaudited annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the 2019 Preliminary Results Announcement.

AUDITOR’S AGREEMENT ON THE 2019 ANNUAL RESULTS

The Board of Directors of the Company is pleased to announce that the auditing process of the annual results of the Group for the year ended 31 December 2019 (the “**2019 Annual Results**”) has been completed and the Company has obtained the agreement from the Company’s auditor, PricewaterhouseCoopers, on the 2019 Annual Results (including the figures in respect of the Group’s consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto) as set out in the 2019 Preliminary Results Announcement in accordance with the requirement of Rule 13.49(2) of the Listing Rules. Except for the reclassification of General and administrative expenses and Impairment loss on property, plant and equipment in the Consolidated Statement of Comprehensive Income outline as below, the 2019 Annual Results contained in the 2019 Preliminary Results Announcement remain unchanged.

Consolidated Statement of Comprehensive Income

	2019	2019	Changes
	RMB’000	RMB’000	RMB’000
		(unaudited)	
Revenue	47,747	47,747	-
Cost of sales	(34,680)	(34,680)	-
Gross profit	13,067	13,067	-
Selling and marketing expenses	(2,393)	(2,393)	-
General and administrative expenses	(43,114)	(62,399)	19,285
Impairment loss on property, plant and equipment	(19,285)	-	(19,285)
Other (losses)/gains – net	(40)	(40)	-
Operating (loss)/profit	(51,765)	(51,765)	-

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2019:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in Note 2.1(b) to the consolidated financial statements, the Group incurred and had an operating cash outflow of RMB43,016,000 during the year ended 31 December 2019. As at 31 December 2019, the Group had a deficit of RMB8,563,505,000 and the Group’s current liabilities exceeded its current assets by RMB9,911,528,000. The Group maintained cash and cash equivalents of RMB42,851,000 as at 31 December 2019.

On 9 October 2018, the Group entered into a conditional sale and purchase agreement to dispose of the core assets and liabilities of shipbuilding, offshore engineering, engineering machinery and marine engine building segments (the “Shipbuilding Business”, together with the holding company of the Shipbuilding Business referred to as the “Disposal Group”) with an independent third party (the “Transaction”). Pursuant to certain supplemental agreements signed with Unique Orient Limited (the “Purchaser”), an independent third party, the sale shares of Able Diligent Limited, the holding company of the Disposal Group, was transferred to the Purchaser on 10 March 2019. As at 31 December 2019, financial guarantees provided by the Company to the banks and lenders of the Disposal Group, inclusive of principals and interest, amounted to RMB6,545,144,000. The Group has considered the impact and recognised financial guarantee contract of the same amount as at 31 December 2019.

During the year, the Group’s operation was focused primarily on the energy exploration and production segment (the “Energy Business”, together with the corporate headquarters referred to as the “Remaining Group”), the development of which has however been limited due to shortage of funds for investments in exploration and drilling of wells. As at 31 December 2019, borrowings of the Group (the “Borrowings of Remaining Group”), amounted to RMB3,594,543,000, out of which RMB2,564,253,000 were overdue. As at 31 December 2019, overdue interest payables of the Remaining Group amounted to RMB322,367,000. Certain borrowings of the Remaining Group contain cross-default terms, causing Borrowings of Remaining Group of RMB37,279,000 as at 31 December 2019 to become immediately repayable. The Remaining Group had cash and cash equivalents of RMB42,851,000 as at 31 December 2019.

These conditions, together with others described in Note 2.1(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts which are set out in Note 2.1(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the Group is able to obtain the agreement from the banks and lenders to release or discharge the Company's guarantees for the borrowings owed by the Disposal Group; (ii) whether the Group is able to convince the banks and lenders not to demand for repayment of the outstanding loans of the Disposal Group before the completion of the release of the Company's guarantees; (iii) whether the Group is able to negotiate with all existing promissory note holders to make further arrangements including extension of the maturity dates; (iv) whether the Group is able to negotiate with the relevant bank for the renewal or extension for repayment for the bank borrowing; (v) whether the Group is able to obtain waivers from the relevant promissory note holders for the due payment in relation to those notes that have cross-default terms and extend the repayment dates when they fall due; (vi) whether the Group can successfully implement a business plan for its Energy Business to generate cash inflows; and (vii) whether the Group can obtain additional sources of financing, including those to finance the Energy Business and draw down from the various facilities made available to the Group by entities controlled by Mr. Zhang Zhi Rong and a close family member of Mr. Zhang Zhi Rong, during the year as and when needed.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

Impairment of property, plant and equipment and intangible assets and impairment of the Company's investments in subsidiaries and amounts due from subsidiaries

As at 31 December 2019, the Group's property, plant and equipment and intangible assets amounted to RMB598,369,000 and RMB1,686,779,000 respectively. Such assets pertain to the Energy Business. In determining the recoverable amounts of these non-current assets, the directors of the Company used value-in-use calculations, taking into consideration the proven oil reserve and new sources of financing for oil exploration. As the value-in-use amounts for the Energy Business exceeded the carrying values of the corresponding non-current assets, the directors of the Company are of the opinion that there was no impairment of these non-current assets as at 31 December 2019. The recoverable amounts of these non-current assets are estimated based on the assumption that the Group will obtain adequate financing for oil exploration in the future.

We were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amounts of the non-current assets amounting to RMB2,285,148,000 of the Remaining Group, as the recoverable amount of the non-current assets of the Remaining Group is dependent on the availability of financing for oil exploration. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these

property, plant and equipment and intangible assets and whether any impairment charge should be made. Any impairment provision for these assets found to be necessary would affect the Group's net assets as at 31 December 2019, the Group's net loss for the year then ended and the related note disclosures to the consolidated financial statements.

In addition, as these assets were held by a material subsidiary, any impairment provision for these assets found to be necessary would also affect the carrying amounts of the Company's investments in subsidiaries and amounts due from subsidiaries as well as the Company's accumulated losses, which amounted to RMB1,514,410,000, RMB141,221,000 and RMB22,270,682,000, respectively, as at 31 December 2019 as well as the related disclosures in the consolidated financial statements.

By order of the Board
China Huarong Energy Company Limited
CHEN Qiang
Chairman

Hong Kong, 11 May 2020

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

Executive directors:

Mr. CHEN Qiang (Chairman), Mr. HONG Liang , Ms. ZHU Wen Hua and Mr. NIU Jianmin.

Independent non-executive directors:

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