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CHINA HUARONG ENERGY COMPANY LIMITED

中國華榮能源股份有限公司有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01101)

SUPPLEMENTAL ANNOUNCEMENT 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, 24 April 2020 and 11 May 2020 in relation to the annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019 (together, the “**Results Announcements**”) and the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report**”).

Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Results Announcements.

As disclosed in the Results Announcements, PricewaterhouseCoopers, the auditor of the Company, did not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2019 on the following basis: (i) multiple uncertainties relating to going concern; and (ii) impairment of property, plant and equipment and intangible assets and impairment of the Company’s investments in subsidiaries and amounts due from subsidiaries (the “**Disclaimer of Opinion**”). The Board would like to supplement the Results Announcements and the Annual Report with the following additional information relating to the Disclaimer of Opinion and provide relevant updates and progress of the Company in resolving the underlying matters leading to the Disclaimer of Opinion.

GOING CONCERN

Release of Relevant Guarantees

As disclosed in the Results Announcements, 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. During the year ended 31 December 2019

(“FY2019”) and subsequent to the completion of the Disposal, the Company, together with the Purchaser, has successfully discharged the Relevant Guarantees in an amount of approximately RMB99 million. In particular, the Company has taken the following actions in respect of the discharge of the Relevant Guarantees during FY2019:

- (i) the Company has ongoing discussions with the Purchaser on a regular basis regarding the progress and status of the discharge of the Relevant Guarantees. Not less than three meetings had been held for such purpose throughout FY2019; and
- (ii) the Company, together with the Purchaser, has been actively negotiating with the relevant banks and lenders to release or discharge the Relevant Guarantees.

Given that the discharging process of banks was time-consuming and could be procedurally and administratively complicated, particularly given that each bank or lender would have its own internal review procedures as well as approval hierarchy, the Relevant Guarantees could not be fully discharged in FY2019 despite the above actions had been taken by the Company and the Purchaser. Also, additional time was required for the banks to conduct their internal risk assessment in respect of the discharging proposals. As the Company is only in the capacity as the guarantor of the Relevant Guarantees, the Company may not always be in the position to negotiate with the relevant banks concerning certain financial conditions or obligations which they would like to impose on the Purchaser. Such discussions could only be initiated by the Purchaser and the Company would not have control over the relevant progress and timing. Nonetheless, both the Company and the Purchaser are committed to procure the full discharge of the Relevant Guarantees by 2020.

As at the date of this announcement, the Company and/or the Purchaser (as appropriate) has prepared and submitted discharging proposals to the relevant banks with the aim of the discharging the Relevant Guarantees by batches during the course of 2020. Details of the Relevant Guarantees (classified by the Company as Relevant Guarantees A to D for ease of reference) and the expected time for discharging the same are summarised as follows:

Relevant Guarantees	Current Status	Expected Time of Discharge*
Relevant Guarantees A	• A portion of the Relevant Guarantees A has been discharged as at the date of this announcement • Pending relevant bank’s final approval for discharging the remaining outstanding amount	• By 30 September 2020

Relevant Guarantees B	Discharging proposal has been submitted to the head office of the relevant bank in September 2019 and currently under internal review	By the fourth quarter of 2020
Relevant Guarantees C	- Auction conducted by the relevant bank in December 2019 to transfer the relevant guaranteed amount to a third-party lender - Relevant Guarantee C discharged in full on 30 June 2020	Fully discharged on 30 June 2020
Relevant Guarantees D	- Discharging proposal has been submitted to the relevant bank by the Purchaser in July 2018 - Discharge progress shall expedited following the settlement of the outstanding bank loan (please refer to the paragraph headed “<i>Bank loan</i>” in this announcement for further details)	Subject to the release of the outstanding bank loans, by the fourth quarter of 2020

**The above expected time of discharge is determined based on information available to the Company as at the date of this announcement and to its best knowledge and is subject to any unforeseen circumstances.*

As at the date of this announcement, the amount of the Relevant Guarantees has reduced by approximately RMB1.4 billion when compared to the amount as at 31 December 2019. The Company expects that, following the release of the remaining balance of the Relevant Guarantees, further drawdown of facilities from the Facility (as defined below) and the utilisation of the Co-operative Framework Agreement would be smoother as both the substantial shareholder providing the Facility and the parties to the Co-operative Framework Agreement intended the Company to utilise the relevant funds for furthering the ongoing business development of the Group, and particularly, in the Energy Business.

Bank loan

As disclosed in the Results Announcements, the Group had overdue bank borrowing of RMB461,243,000 as at 31 December 2019. It is the intention of the Company to repay such bank loan by utilising the US dollar facility entered with a shareholder of the Company (the “**Shareholder**”) in 2018 (the “**Facility**”). The Facility has a total amount of USD250 million. It is an interest-free and unsecured facility with a maturity date of 31 December 2021.

The Company expects to utilise the Facility to repay the outstanding bank loan by batches and all such repayments shall be made by the third quarter of 2020. Based on the best knowledge and information available to the Company and after having discussed with the Shareholder, the Shareholder is committed to provide the Facility required by the Company to settle the outstanding bank loan in full in 2020. As at the date of this announcement, the outstanding bank loan amounted to approximately RMB336 million.

Apart from settling the outstanding bank loan, the Company also expects to utilise the Facility for its capital expenditure on the Company’s Energy Business and for general working capital purpose. As a result of the outbreak of COVID-19, the Group’s operations in Kyrgyzstan have been temporarily restricted. Coupled with the current low oil price and stagnant global demand on oil, it is expected that expenditures in the Energy Business would only start to be incurred by the Company in around the fourth quarter of 2020, the earliest. The management of the Group is taking a prudent approach to manage the capital expenditure of the Energy Business and will continue to monitor the development of the oil market in making any capital expenditure decisions.

The Company and the Shareholder are engaging in ongoing discussions as to the provision of further financial assistance by the Shareholder to the Company, which is still preliminary and subject to further discussion. If any such plan is materialised, the Company will make announcement (where required) and comply with the relevant requirements under the Listing Rules.

Convertible Bonds and Promissory Notes

As at 30 March 2020, the Company had outstanding convertible bonds in the principal amount of HK\$476.4 million, all of which had expired on 30 November 2019. On 29 November 2019, the Company has informed the relevant bondholders that such outstanding convertible bonds would be replaced and substituted by promissory notes of the Company in the same amount. Such replacement was conducted as the convertible bonds have reached their maturity date on 30 November 2019 and all relevant conversion features of the convertible bonds were expired upon maturity.

As at 31 December 2019, the Company had outstanding promissory notes of RMB2.1 billion (including the amount of promissory notes which replaced the convertible bonds). During FY2019, the Company has been in continuous discussions and negotiations with the noteholders with the objective of obtaining their agreements to extend the overdue liabilities. Particularly, not less than five meetings and/or telephone conferences have been held between the Company and each of the noteholders in 2019. Despite the Company was unable to obtain final consents from the noteholders during FY2019 for extending the overdue liabilities, the Company is committed to undergo further discussions and negotiations with them during 2020.

As at the date of this announcement, the Company has already had not less than three preliminary discussions with each of the promissory noteholders (including the bondholders who subsequently become noteholders as a result of the replacement of the convertible bonds) in 2020 regarding the extension of maturity dates of the promissory notes and some of the noteholders have indicated their willingness to extend the maturity dates of the promissory notes. As at the date of this announcement, several noteholders have agreed in writing to the extension of the maturity date. The Company has already scheduled further meetings and/or telephone conferences with the noteholders throughout 2020, and seek to obtain their full consensus by the fourth quarter of 2020.

The Company is currently working out a plan to settle the outstanding promissory notes, which would depend on the Company's financial performance and upcoming discussions with potential financial institution(s) on refinancing. As at the date of this announcement, no definite settlement terms have been reached by the Company with any relevant parties in this regard.

The management team of the Company has been actively following up on the status of the above matters and has been continuously monitoring the relevant progress and development through regular meetings of the Company.

IMPAIRMENT LOSSES ON CONSTRUCTION IN PROGRESS AND OIL PROPERTIES

As disclosed in the Results Announcements, the Company recorded impairment losses on construction in progress of approximately RMB1,381,000 and on oil properties of approximately RMB17,904,000 for the year ended 31 December 2019 (the “**Impairment Losses**”). Such Impairment Losses were associated with specific oil assets of the Company, which were previously utilised for the Company's oil production, but due to mechanical issues, had been left idle. Given the additional rectification work that would be required to be conducted before such assets may be utilised for oil production again, the Company considered that they would not be able to generate any economic benefit to the Company in the near future. As such, 100% impairment losses for these specific assets, which were made based on the net book value of such assets as at 31 December 2019, had been provided for and resulted in the recognition of the Impairment Losses. In the event if such assets can be utilised for the Company's oil production again, the relevant impairment amounts may be reverted.

Given that the above impairment treatment was made in accordance with International Accounting Standard 36 (Impairment of Assets) and is a specific assessment for the said idle assets (which were impaired at net book value), no specific valuation method or input value were adopted for purpose of such assessment.

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

Hong Kong, 5 August 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.