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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)

MAJOR TRANSACTION

IN RELATION TO THE ACQUISITION OF 50.46% EQUITY INTEREST IN NANTONG ZHUOSHENG PETROCHEMICAL CO., LTD.

Financial Adviser to the Company



RAINBOW CAPITAL (HK) LIMITED
滄博資本有限公司

THE ACQUISITION

The Company is pleased to announce that on 23 October 2020, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Purchaser conditionally agreed to acquire approximately 50.46% of the equity interest in the Target Company from the Vendor at the Consideration of RMB132.8 million and make capital contribution of RMB143 million to the Target Company, subject to the funding need and development plan of the Target Company. Upon Completion, the Company will indirectly hold approximately 50.46% of the equity interest in the Target Company which will become a subsidiary of the Company, and its financial results, assets and liabilities will be consolidated into the financial statements of the Group. As at the date of this announcement, the Target Company is principally engaged in provision of tank storage for fuel oil and its related products in the PRC.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but all are less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) further details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) the notice of convening the EGM; and (iii) other information required under the Listing Rules, is expected to be despatched to the Shareholders on or before 16 November 2020 in accordance with the Listing Rules.

Completion of the Acquisition is conditional upon the satisfaction of, among others, the Conditions Precedent, including the approval of the Acquisition Agreement and the transactions contemplated thereunder by the Shareholders at the EGM. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.

THE ACQUISITION

On 23 October 2020, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Purchaser conditionally agreed to acquire approximately 50.46% of the equity interest in the Target Company from the Vendor at the Consideration of RMB132.8 million and make capital contribution of RMB143 million to the Target Company, subject to the funding need and development plan of the Target Company. Upon Completion, the Company will indirectly hold approximately 50.46% of the equity interest in the Target Company which will become a subsidiary of the Company, and its financial results, assets and liabilities will be consolidated into the financial statements of the Group.

THE ACQUISITION AGREEMENT

Date

23 October 2020

Parties

Vendor	:	Hou Maohua (侯茂華), being the legal and beneficial owner of approximately 50.46% of the equity interest in the Target Company
Purchaser	:	Shanghai Huijiu Energy Technology Limited* (上海匯玖能源科技有限公司), being an indirect wholly-owned subsidiary of the Company
Target Company	:	Nantong Zhuosheng Petrochemical Co., Ltd.* (南通焯晟石油化工有限公司)

Please refer to the sections headed “Information on the Company, the Purchaser and the Vendor” and “Information on the Target Company” of this announcement for further information on the Vendor, the Purchaser and the Target Company.

Asset to be acquired

As at the date of this announcement, the Target Company was indebted to the Vendor in a net amount of RMB57 million (the “**Debt**”). As part of restructuring of the Target Company, on 23 October 2020, the Vendor, the Target Company and Shanghai Ditong entered into a debt-for-equity swap agreement, pursuant to which the Vendor agreed to convert the Debt of RMB57 million into the paid-up registered capital of the Target Company (the “**Conversion**”).

The change in paid-up registered capital of the Target Company upon completion of the Conversion is shown below:

	As at the date of this announcement		Immediately after completion of the Conversion	
	<i>RMB' million</i>	<i>Shareholding</i>	<i>RMB' million</i>	<i>Shareholding</i>
The Vendor	328	50.46%	328	50.46%
— paid-up	128	19.69%	185	28.46%
— unpaid	200	30.77%	143	22.00%
Shanghai Ditong				
— paid-up	322	49.54%	322	49.54%
Total	650	100.00%	650	100.00%

As at the date of this announcement, the Target Company (i) was owned as to approximately 50.46% by the Vendor and as to approximately 49.54% by Shanghai Ditong; and (ii) had a registered capital of RMB650 million, of which (a) RMB450 million was paid up; (b) RMB57 million will be paid up upon completion of the Conversion; and (c) RMB143 million was not yet paid up.

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, approximately 50.46% of the equity interest in the Target Company. The registered capital as represented by the 50.46% equity interest in the Target Company is RMB328 million, of which (i) RMB128 million was paid up; (ii) RMB57 million will be paid up upon completion of the Conversion; and (iii) RMB143 million will be paid up by the Purchaser after Completion.

Consideration

The Consideration for the Acquisition is RMB132.8 million (equivalent to approximately HK\$152.7 million) which shall be satisfied by the Promissory Note in the principal amount of RMB132.8 million issued by the Purchaser to the Vendor for a term of two years upon Completion. Please refer to the section headed “The Acquisition Agreement — Promissory Note” of this announcement for further details of the Promissory Note.

Subsequent to Completion, the Purchaser shall make capital contribution of RMB143 million to the Target Company, subject to the funding need and development plan of the Target Company. The Company intends to finance such capital contribution by external borrowings.

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, among other things, (i) the benefits to be derived by the Group from the Acquisition as set out in the section headed “Reasons for and benefits of the Acquisition” below; (ii) the financial performance of the Target Company as set out in the section headed “Financial information of the Target Company” below; (iii) the Profit Guarantee provided by the Vendor under the Acquisition Agreement as set out in the section headed “The Acquisition Agreement — Profit Guarantee” below; and (iv) a preliminary business valuation of 100% equity interest in the Target Company of approximately RMB391 million as at 30 September 2020 as appraised by Asia-Pacific Consulting and Appraisal Limited, an independent valuer, using the market approach.

Based on (i) the Consideration of RMB132.8 million for approximately 50.46% equity interest in the Target Company; and (ii) the net profit of the Target Company of approximately RMB28 million for the year ending 31 December 2021 as guaranteed by the Vendor pursuant to the Acquisition Agreement, the price-to-earnings multiple implied by the Acquisition is approximately 9.40 times (the “**Implied P/E**”).

Conditions Precedent

Completion is conditional upon the fulfilment of the following Conditions Precedent:

- (i) approvals from the Shareholders of the Company having been obtained at the EGM pursuant to the Listing Rules in respect of the Acquisition;
- (ii) the Purchaser having obtained a legal opinion and/or due diligence report (in the form and substance satisfactory to the Purchaser) issued by the PRC legal adviser to the Purchaser in respect of the Acquisition and the Target Company;
- (iii) the Company being satisfied with the results of the due diligence review on the business and financial conditions of the Target Company;
- (iv) the Acquisition having been in compliance with all requirements under the Listing Rules;
- (v) the representations, warranties and undertakings provided by the Vendor in the Acquisition Agreement remaining true and accurate and the Vendor having performed or complied with all such representations, warranties and undertakings during the period from the date of the Acquisition Agreement up to the Completion Date;
- (vi) the debt-for-equity swap involving a conversion of the sum of RMB57 million into the paid-up registered capital of the Target Company (details of which are set out in the section headed “The Acquisition Agreement — Asset to be acquired”) having been completed;
- (vii) all the necessary and valid approvals, consent, exemptions or necessary notice having been obtained from the relevant third parties, governmental authorities and regulatory bodies in respect of the Acquisition; and
- (viii) no event, change, circumstance, effect or other matter having occurred that has had or would potentially have a material adverse effect on the Target Company during the period from the date of the Acquisition Agreement up to the Completion Date.

None of the Conditions Precedent above can be waived. As at the date of this announcement, none of the Conditions Precedent has been fulfilled.

Completion

Completion shall take place on the fifth Business Day after the fulfilment of the Conditions Precedent and in any event not later than 31 December 2020 (or other later date to be agreed by the Purchaser, the Vendor and the Target Company).

Upon Completion, the Company will indirectly hold approximately 50.46% of the equity interest in the Target Company which will become a subsidiary of the Company, and its financial results, assets and liabilities will be consolidated into the financial statements of the Group. The Purchaser is entitled to approximately 50.46% of any profit distributed by the Target Company after Completion.

Equity pledge and post-completion undertakings

Equity pledge

To secure the Purchaser's obligations under the Promissory Note, upon Completion, the Purchaser shall pledge such portion of equity interest in the Target Company which was paid up and held by the Vendor (i.e. RMB185 million paid-up registered capital of the Target Company) immediately prior to Completion in favour of the Vendor (the "**Equity Pledge**"). The Equity Pledge will be released within 5 days after the Purchaser has discharged its payment obligation under the Promissory Note.

Release of guarantees

As at the date of this announcement, the Target Company has provided financial guarantees (the "**Guarantees**") in respect of (a) the debts owed by the Company with an outstanding amount, inclusive of principals and interest, of approximately US\$58.6 million (equivalent to approximately RMB393.5 million); (b) the debts owed by a former subsidiary of the Company (which was engaged in ship-building and engineering business in the PRC, and was disposed of in March 2019) with an aggregate outstanding amount, inclusive of principals and interest, of approximately RMB844.8 million, to which the Company has also provided the financial guarantee; and (c) the debts owed by Independent Third Parties in an aggregate amount of approximately RMB872.4 million. Certain assets of the Target Company have also been pledged for the debts mentioned in (a) and (b) above.

The Vendor has undertaken to the Purchaser to procure the Target Company to release and discharge the Guarantees in full as soon as possible, and in any event not later than 30 June 2021.

If the Vendor fails to perform the above undertaking, the Purchaser shall be entitled to:

- (i) request the Vendor to buy back the Purchaser's equity interest (in whole or in part) in the Target Company (the "**Put Option**") within 10 days upon receiving such request from the Purchaser at a consideration equal to the sum of the Consideration and the amount of capital contribution made by the Purchaser to the Target Company, provided that there has been no material adverse change in the business and financial condition of the Target Company since Completion; or
- (ii) extend the term of the Promissory Note for such period (the "**Extension Period**") as the Guarantees remain outstanding until the Guarantees are fully released and discharged, provided that the cumulative term of the Promissory Note shall not exceed four years after the Completion Date, during which the Purchaser shall remain entitled to exercise the Put Option. The Promissory Note shall be interest bearing during the Extension Period and the interest rate shall be further negotiated among the parties when the Purchaser decides to extend the term of the Promissory Note.

Disposal of the Disposal Subsidiaries

As at the date of this announcement, the Target Company held two Disposal Subsidiaries which are engaged in logistics and other non-oil and gas commodity trading businesses.

Given that (i) the Disposal Subsidiaries do not form part of the core business of oil storage that the Purchaser intends to acquire; and (ii) the Disposal Subsidiaries were not taken into account in determining the Consideration, the Vendor undertakes to procure the Target Company to dispose of all its equity interest in the Disposal Subsidiaries by not later than 31 December 2021. During the period between the Completion Date and prior to disposal of the Disposal Subsidiaries, the Purchaser and the Target Company will not invest or participate in, hold any right or interest, or take any responsibilities, controls, or risks of the business operations of the Disposal Subsidiaries. As such, the results, assets and liabilities of the Disposal Subsidiaries will not be consolidated into the financial statements of the Group upon Completion. If the Vendor fails to perform the above undertaking, the Purchaser shall be entitled to request the Vendor to purchase the equity interests in the Disposal Subsidiaries held by the Target Company at their respective net book values.

Indemnity provided by the Vendor

The Vendor shall indemnify the Purchaser for 50.46% of any liabilities, losses or damages incurred by the Target Company arising from:

- (i) any action, demand or claim requiring the Target Company to perform its guarantee obligation to make payments under the Guarantees during the relevant guaranteed period;
- (ii) the holding of the equity interests in the Disposal Subsidiaries; or
- (iii) any undisclosed liabilities of, or any non-compliance of any applicable law and regulation by, the Target Company prior to Completion.

Any compensation to be paid by the Vendor under the Indemnity will be deducted from the principal amount of the Promissory Note. If the principal amount of the Promissory Note is not sufficient to cover the Vendor's compensation under the Indemnity and the Profit Guarantee (as described below), the Purchaser is entitled to exercise the Put Option. In any event, the maximum liability to be borne by the Vendor under the Indemnity and the Profit Guarantee shall be limited to the principal amount of the Promissory Note.

Profit Guarantee

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the audited net profit after tax (excluding extraordinary or exceptional items) (the "**Audited Profit**") of the Target Company for the two years ending 31 December 2021 shall be no less than RMB23 million and RMB28 million respectively (the "**Guaranteed Profit**") according to the International Financial Reporting Standards.

The Guaranteed Profit was determined by the Vendor and the Company after arm's length negotiations with reference to current operation status and secured contracts as well as the expected growth of the oil storage business undertaken by the Target Company.

If the aggregate Audited Profit for the two years ending 31 December 2021 is less than RMB51 million, the Purchaser is entitled to request the Vendor to compensate the Purchaser an amount (the “**Profit Compensation**”) to be determined as follows:

$$A = (B - C) \times 9.40 \text{ (i.e. the Implied P/E) } \times 50.46\%$$

where:

“A” means the Profit Compensation;

“B” means the Guaranteed Profit of RMB51 million for the two years ending 31 December 2021; and

“C” means the aggregate Audited Profit for the two years ending 31 December 2021.

The Vendor shall settle the Profit Compensation to the Purchaser by way of deduction from the principal amount of the Promissory Note after receiving such request from the Purchaser. If the principal amount of the Promissory Note is not sufficient to cover the Vendor’s compensation under the Indemnity and the Profit Guarantee, the Purchaser is entitled to exercise the Put Option. In any event, the maximum compensation to be borne by the Vendor under the Profit Guarantee and the Indemnity shall be limited to the principal amount of the Promissory Note.

Promissory Note

Pursuant to the Acquisition Agreement, the Purchaser will issue to the Vendor the Promissory Note in the principal amount of RMB132.8 million upon Completion to settle the Consideration. The principal terms of the Promissory Note are summarised as follows:

Issuer: the Purchaser

Noteholder: the Vendor

Principal amount: RMB132.8 million

Interest: Nil

Maturity date: Two years from the Completion Date (the Purchaser is entitled to extend the term of the Promissory Note for such period as the Guarantees remain outstanding until the Guarantees are fully released and discharged, provided that the Extension Period shall not exceed four years after the Completion Date)

Transferability: Not transferrable

The Purchaser is entitled to deduct the principal amount of the Promissory Note by an aggregate amount equivalent to (i) 50.46% of any liabilities, losses or damages incurred by the Target Company arising from the enforcement of the Guarantees or the holding of the equity interests in the Disposal Subsidiaries or any undisclosed liabilities of, or any non-compliance of any applicable law and regulation by, the Target Company prior to Completion; and (ii) the Profit Compensation payable by the Vendor under the Profit Guarantee. Please refer to the sections headed “The Acquisition Agreement — Equity pledge and post-completion undertakings” and “The Acquisition Agreement — Profit Guarantee” of this announcement for further details.

The Directors’ view

Taking into account that (i) the Consideration is determined with reference to an independent valuation of the Target Company; (ii) the Profit Guarantee provides the Group with certainty in respect of the net profit of the Target Company for the two years ending 31 December 2021; (iii) while the Vendor shall procure the Target Company to release and discharge the Guarantees in full on or before 30 June 2021, the Group is provided with the downside protection from the Put Option, pursuant to which the Purchaser is entitled to unwind the Acquisition, in the event that the Guarantees are not released and discharged in full within the agreed timeframe or are even enforced; (iv) the Group is provided the Indemnity from the Vendor, by way of deduction of the principal amount of the Promissory Note, for any liabilities, losses or damages incurred by the Target Company arising from the holding of the equity interests in the Disposal Subsidiaries or any undisclosed liabilities of, or any non-compliance of any applicable law and regulation by, the Target Company prior to Completion; (v) the prospects of the Target Company and synergies between the Group and the Target Company as set out in the section headed “Reasons for and benefits of the Acquisition” below; and (vi) given the two-year term of the Promissory Note and that the Group is allowed to extend the term further if the Guarantees are not released and discharged in full within the agreed timeframe which shall not exceed four years after the Completion Date, the liquidity pressure of the Group is eased, the Directors (including independent non-executive Directors) consider that terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE COMPANY, THE PURCHASER AND THE VENDOR

The Company is an investment holding company. The Group is principally engaged in operations in development of the energy exploration and production.

The Purchaser is a company established in the PRC with limited liability on 24 June 2019 and an indirect wholly-owned subsidiary of the Company principally engaged in commodity trading in the PRC.

The Vendor is a PRC resident and a merchant. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor is an Independent Third Party.

INFORMATION ON THE TARGET COMPANY

The Target Company was established under the laws of the PRC with limited liability. As at the date of this announcement, the Target Company is principally engaged in provision of tank storage for fuel oil and its related products in the PRC. As at the date of this announcement, the Target Company had (i) 37 storage tanks with total volume of 242,000 cubic meters; (ii) a bare land with total area of 33,334.19 meter squares; (iii) land and buildings with land area of 412,120 meter squares and gross floor area of 6,156.27 meter square, respectively; and (iv) certain shoreline rights.

As at the date of this announcement, the Target Company was owned as to approximately 50.46% by the Vendor and as to approximately 49.54% by Shanghai Ditong, a company established in the PRC with limited liability. Shanghai Ditong is owned as to approximately 95.2% by Zhang De Huang and as to approximately 4.8% by Zhang Cui Lan, the spouse of Zhang De Huang.

FINANCIAL INFORMATION OF THE TARGET COMPANY

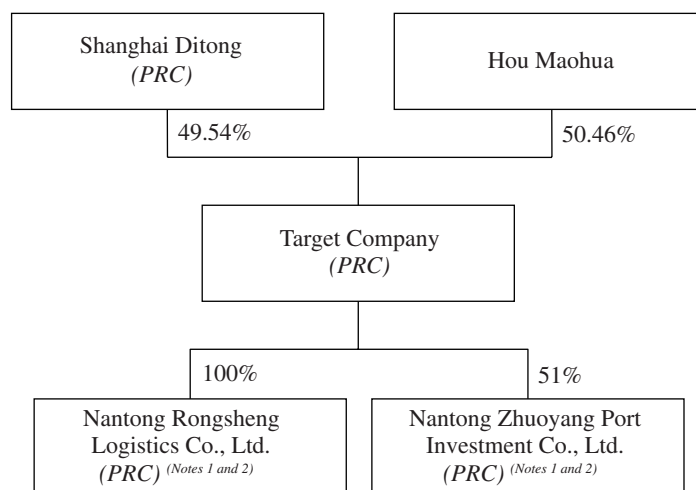
Set out below is the unaudited financial information of the Target Company for the three years ended 31 December 2019 and the seven months ended 31 July 2020 prepared in accordance with the International Financial Reporting Standards:

	For the year ended 31 December			For the seven months ended 31 July
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	41,269	30,769	26,107	30,172
Net profit before taxation	2,000	68,050	17,808	17,798
Net profit after taxation	655	49,976	13,275	13,313

As at 31 July 2020, the unaudited net asset value of the Target Company (without taking into account the financial impact of the Guarantees) was approximately RMB9.2 million. Upon completion of the Conversion, the unaudited net asset value of the Target Company is expected to be increased by RMB57 million.

THE STRUCTURE OF THE TARGET GROUP BEFORE AND AFTER THE ACQUISITION

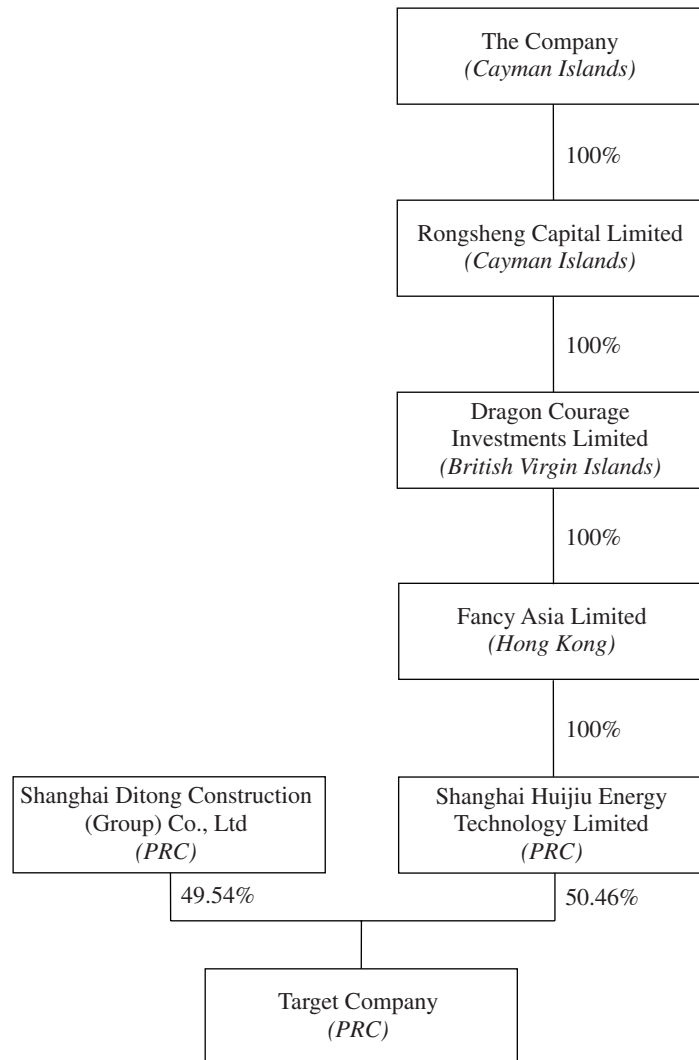
Set out below is the group structure of the Target Group before Completion:



Notes:

- (1) Pursuant to the Acquisition Agreement, the Vendor undertakes to procure the Target Company to dispose of all the equity interests in the Disposal Subsidiaries by not later than 31 December 2021. Please refer to the section headed “The Acquisition Agreement — Equity pledge and post-completion undertakings — Disposal of the Disposal Subsidiaries” of this announcement for further details.
- (2) The equity interests held by the Target Company in the Disposal Subsidiaries were frozen until 22 June 2022 pursuant to a court order given by the Wuhan Marine Court in 2019 in respect of the Target Company’s failure to perform its obligation under the Guarantees in respect of the debts owed by the Company and the debts guaranteed by the Company as set out in the section headed “The Acquisition Agreement — Equity pledge and post-completion undertakings — Release of guarantees” above. Pursuant to the Acquisition Agreement, the Vendor undertakes to procure the Target Company to release and discharge the Guarantees in full as soon as possible, and in any event not later than 30 June 2021. Please refer to the section headed “The Acquisition Agreement — Equity pledge and post-completion undertakings — Release of guarantees” of this announcement for further details. It is expected that the Disposal Subsidiaries can be unfrozen after the release and discharge of the Guarantees.

Set out below is the group structure of the Target Group after Completion and excluding the Disposal Subsidiaries:



REASONS FOR AND BENEFITS OF THE ACQUISITION

Expand business scale with diversification of revenue stream

After completion of the disposal of the ship-building, offshore engineering, engineering machinery and marine engine building businesses in March 2019, the Group is principally engaged in energy exploration and production businesses by holding interests in oilfields in the Fergana Valley of Kyrgyzstan to conduct oil exploration and exploitation. For the two years ended 31 December 2019 and the six months ended 30 June 2020, the revenue generated from sales of crude oil from the Kyrgyzstan project amounted to approximately RMB49.0 million, RMB47.7 million and RMB14.3 million, respectively.

Although the global commodity market has been heavily affected by the outbreak of COVID-19 since early 2020, the demand for energy exploration and production has improved gradually, with growing market demand for oil storage services. As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group has been continuously looking for other related opportunities within the industry sector to broaden and diversify its revenue source to ease the sole reliance on the oil exploration business. The Target Company possesses expertise in provision of oil storage services. The Board believes that the Group can accumulate sufficient experience in the operation and management, and further expand its business presence within the oil sector after the Acquisition. As such, the Acquisition reflects the Company's strategy of investing in oil-and-gas-related storage and logistic projects, which would enable the Group to expand its energy business vertically. With current secured contracts on hand, the Target Company is expected to bring a positive financial impact to the Group by contributing stable income and cash flows.

The Target Company recorded revenue of approximately RMB26.1 million and RMB30.2 million, and net profit of approximately RMB13.3 million and RMB13.3 million for the year ended 31 December 2019 and the seven months ended 31 July 2020, respectively. In addition, pursuant to the Acquisition Agreement, the Vendor guaranteed that the audited net profit of the Target Company for the two years ending 31 December 2021 shall be no less than RMB23 million and RMB28 million, respectively. With the integration of the Target Company into the Group, the revenue size and business scale of the Group is expected to be enlarged and thereby bringing greater diversity in the enlarged Group's business portfolio.

Improve operational efficiency and cost saving by vertical integration

As mentioned in the annual report of the Company for the year ended 31 December 2019, the Group has been making continuous endeavours to seek possible development on both upstream production and downstream trading operation to maximise overall group performance through all the possible synergies. The Directors consider that the Acquisition can lay a foundation for the Group to develop a vertically-integrated business model for its participation in the energy sector in the long run. The Acquisition will result in potential synergy with the Group's newly established oil and gas trading business, by securing a stable and reliable storage of oil as part of the supply chain of the Group at competitive price, resulting in operational efficiency and cost saving of the Group as a whole. In this connection, the Acquisition shall lay a solid foundation and creating a positive operating condition for the Group's long-term development of oil and gas business.

In view of the above, the Directors (including independent non-executive Directors) consider the Acquisition is in the best interest of the Company and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but all are less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition, and thus no Shareholder is required to abstain from voting at the EGM. A circular containing, among other things, (i) further details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) the notice of convening the EGM; and (iii) other information required under the Listing Rules, is expected to be despatched to the Shareholders on or before 16 November 2020 in accordance with the Listing Rules.

Completion is conditional upon the satisfaction of, among others, the Conditions Precedent, including the approval of the Acquisition Agreement and the transactions contemplated thereunder by the Shareholders at the EGM. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the proposed acquisition of approximately 50.46% of the equity interest in the Target Company by the Purchaser from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 23 October 2020 entered into between the Company, the Vendor and the Target Company in relation to the Acquisition
“Board”	the board of Directors
“Business Day”	a day on which banks of the PRC are open for ordinary banking business (excluding Saturdays and Sundays)
“Company”	China Huarong Energy Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1101)
“Completion”	completion of the Acquisition
“Completion Date”	the fifth Business Day after the fulfilment of the Conditions Precedent and in any event not later than 31 December 2020 (or other later date to be agreed by the Purchaser, the Vendor and the Target Company)
“Conditions Precedent”	the conditions precedent to the Acquisition Agreement as set out in the section headed “The Acquisition Agreement — Conditions Precedent” in this announcement
“Consideration”	the consideration for the Acquisition of RMB132.8 million
“Directors”	directors of the Company

“Disposal Subsidiaries”	(i) Nantong Zhuoyang Port Investment Co., Ltd.* (南通焯陽港口投資有限公司), a company established in the PRC with limited liability and 51% owned by the Target Company; and (ii) Nantong Rongsheng Logistics Co., Ltd.* (南通熔盛物流有限公司), a company established in the PRC with limited liability and wholly-owned by the Target Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve the Acquisition and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Guarantees”	the guarantees provided by the Target Company, details of which are set out in the section headed “The Acquisition Agreement — Equity pledge and post-completion undertakings — Release of guarantees” of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indemnity”	the indemnity provided by the Vendor in favour of the Purchaser under the Acquisition Agreement, details of which are set out in the section headed “The Acquisition Agreement — Equity pledge and post-completion undertakings — Indemnity provided by the Vendor” of this announcement
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are not connected person(s) of the Company and is/are third party(ies) independent of the Company and its connected persons in accordance with the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Profit Guarantee”	the profit guarantee given by the Vendor in favour of the Purchaser under the Acquisition Agreement as described in the section headed “The Acquisition Agreement — Profit Guarantee” of this announcement
“Promissory Note”	the promissory note to be issued by the Purchaser in favour of the Vendor in the principal amount of RMB132.8 million for satisfaction of the Consideration, details of which are set out in the section headed “The Acquisition Agreement — Promissory Note” of this announcement
“Purchaser”	Shanghai Huijiu Energy Technology Limited* (上海匯玖能源科技有限公司), a company established in the PRC with limited liability on 24 June 2019 and an indirect wholly-owned subsidiary of the Company principally engaged in commodity trading in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Ditong”	Shanghai Ditong Construction (Group) Co., Ltd.* (上海地通建設(集團)有限公司), a company established in the PRC and owned as to approximately 95.2% by Zhang De Huang and as to approximately 4.8% by Zhang Cui Lan, the spouse of Zhang De Huang
“Share(s)”	ordinary share(s) of HK\$0.5 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Nantong Zhuosheng Petrochemical Co., Ltd.* (南通焯晟石油化工有限公司), a company established in the PRC with limited liability on 8 May 2003 engaging in provision of tank storage for fuel oil and its related products in the PRC

“Target Group”	the Target Company and its subsidiaries
“US\$”	United States of America dollars, the lawful currency of the United States of America
“Vendor”	Hou Maohua (侯茂華), an Independent Third Party
“%”	per cent

For the purpose of this announcement, unless otherwise specified or the context requires otherwise, “” denotes an English translation of a Chinese name and is for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

In this announcement, amounts in RMB are translated to HK\$ on the basis of RMB1 = HK\$1.15. The conversion is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at that rate or at other rates or at all.

On behalf of the Board
China Huarong Energy Company Limited
CHEN Qiang
Chairman

Hong Kong, 23 October 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.